REPORT ON A FRAMEWORK FOR INCOMES AND PRICES POLICY

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CONTENTS

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INTRODUCTORY

The idea of setting up an organisation to make a study of the need and scope of an incomes policy in India was first mooted in February 1963 by the then Minister of Economic Co-ordination, Shri T. T. Krishnamachari when he suggested that there should be a study at a technical level, divorced from the current policy inhibitions, of an integrated incomes, wages and prices policy.

The above suggestion was discussed at a meeting of the Planning Commission on March 6, 1963, as a result of which it was decided that Dr. B. K. Madan, Executive Director (now Deputy Governor) of the Reserve Bank, should prepare the framework of a project on incomes policy. Dr. Madan submitted a note on wages, incomes and prices policies in June 1963 to the Ministry of Finance and the Planning Commission setting out a scheme of study for the evolution of wages, incomes and prices policies in conformity with the objectives of the Five-Year Plans and the national economic goals. The note specified the basic considerations relating to the formulation of these policies and pointed out the lacunae in the existing statistical information regarding the various aspects of these policies and suggested a list of topics that required intensive study as a basis for a comprehensive consideration of the problem.

The issues raised were discussed between the Finance Minister and the Governor of the Reserve Bank and it was decided that a unit should be set up for the continuous study and investigation of problems of wages, incomes and prices policies. It was also decided that the unit should, for the time being, be located in the Reserve Bank of India and it should work in close liaison with the various organs of the Government of India such as the Ministry of Finance, Planning Commission, Ministry of Food and Agriculture and the Ministry of Labour. Close liaison with Ministries of the Government was felt to be necessary because the number and range of studies to be conducted as ancillary to the formulation of policy would be too large and too extensive in scope for any single unit to undertake by itself.

For imparting guidance to the work of the income unit, a Steering Group consisting of representatives of the Reserve Bank, Planning Commission, the Ministry of Finance, Central Statistical Organisation, the Ministry of Labour and Employment and the Ministry of Food and Agriculture was constituted in June 1964 as follows :

1. Dr. B. K. Madan, Deputy Governor, Reserve Bank of India—Chairman
2. Shri B. N. Adarkar, Additional Secretary, Ministry of Finance (now Deputy Governor, Reserve Bank of India)—Member
3. Dr. K. S. Krishnaswamy, Economic Adviser, Planning Commission—Member
4. Shri B. N. Datar, Adviser (Labour, Employment and Social Planning), Planning Commission—Member
5. Dr. K. R. Nair, Director, Central Statistical Organisation—Member and
6. Shri V. G. Pendharkar, Economic Adviser, Reserve Bank of India—Convener.

   After the first meeting, two more members were co-opted :

7. Shri S. C. Choudhari, Economic Adviser, Ministry of Food and Agriculture (now Member-Secretary, Agricultural Prices Commission) and
8. Shri V. K. Ramaswami, Economic Adviser, Ministry of Finance.

The work of the Steering Group commenced in August 1964. Apart from the original members of the Group, the inaugural meeting was attended by the then Finance Minister Shri T. T. Krishnamachari, Shri Asoka Mehta, Deputy Chairman, Planning Commission, Shri Tarlok Singh and Dr. V. K. R. V. Rao, Members of the Planning Commission, Shri S. Bhoothalingam, Secretary, Ministry of Finance, Shri L. K. Jha, Secretary to the Prime Minister, Shri T. P. Singh, Secretary of the Planning Commission and Shri P. C. Bhattacharyya, Governor of the Reserve Bank. In this meeting, reference was made to the need, initially, to set up a technical body to study the problems in the field of incomes policy and emphasis was placed on the work of the Group being regarded as part of the planning mechanism of the country.

The work of implementation of an incomes policy would ultimately involve a considerable effort for educating public opinion with regard to the basic issues of such a policy through suitable publications in simple non-technical terms issued in Hindi and later in other Indian languages. In general, it was agreed that there was need to promote decisions on wages, incomes and prices, as far as possible, in a frame of reference to be evolved in the perspective of objectives of growth of the economy rather than of immediate pulls and pressures. It was, therefore, important to give consideration to the institution of some machinery or the creation of a body, with which the various administrative Ministries may be associated, to influence current decisions on these problems from the points of view of overriding concern to the community.

In the nature of things, the subject of incomes policy covers a vast field and comprehends many complex issues, more so in a country like India. In fact the subject, in its broad aspects, touches upon the entire gamut of our planning process and represents a facet of the whole range of fiscal, monetary and planning policies. The report that follows does not seek to furnish precise answers to the many issues of incomes policy. What the Group desires to do is not to offer a blueprint for immediate action in the sphere of wages, incomes and price policies but rather to set out the framework for the direction of policies in these fields and the organisational set-up for the implementation of such policies. Definitive answers would depend upon the availability of various types of statistical information about the Indian economy. As it is, there are numerous gaps in the data, bearing upon the Indian economy, more particularly in regard to income distribution, sectoral flows of income, agricultural labour, wage structure in agriculture, labour productivity and so on. Even the national income data need considerable refinement before they can be used for purposive analysis and policy formulation, more so in the sphere of incomes policy. The lacunae in these statistics might have been partly met if the second part of the report of the Committee on Distribution of Income and Levels of Living (Mahalanobis Committee) had been forthcoming. In view of the above, it is only possible at this stage to provide tentative guidelines for consideration in the formulation of incomes policy. It has been felt by the Group that if a framework for the implementation of incomes policy such as we have worked out is offered as a basis for wider public discussion, it may be possible, in due

course, to incorporate in the structure of institutional arrangements the principles of incomes policy which are accepted as relevant and appropriate in the Indian context.

This report on a framework for incomes and prices policy is divided into two Parts. The first Part contains the main ingredients of an incomes policy for India in the perspective of growth ; it sets out the general framework and context of an incomes policy. The main conclusions on guidelines for an incomes policy are also included in this Part. The second Part deals with policy for wages in its historical perspective and indicates the main elements of a wages policy that may be evolved in the future. Thereafter, some considerations bearing on the basis of policies in regard to salaries are touched upon. In the last section there is a discussion of some of the important factors pertaining to the problem of price policy. In view of the paucity of appropriate data the examination is necessarily tentative. Even so, an analysis of some basic issues relating to the price policy for the agricultural and non-agricultural sectors is attempted with a view to outlining the framework of action in this sphere.

Acknowledgements

We wish to take this opportunity to record our appreciation of the valuable assistance rendered to the Group by the members of the Incomes Unit in the Economic Department of the Reserve Bank, in particular Dr. D. R. Khatkhate, Shri Philip Thomas and Dr. V. V. Bhatt as well as the co-operation received by us from the Planning Commission, the Ministry of Labour, Central Statistical Organisation, the Department of Economic Affairs and the Reserve Bank of India.

January 19, 1967.

Dear Governor,

The Steering Group set up by you in June 1964, to study the problems in the sphere of Wages, Incomes and Prices Policies has now completed its labours. The Group has prepared an unanimous Report which I have great pleasure in submitting to you.

Yours sincerely,

Sd. B. K. Madan
Chairman,
Steering Group on Incomes,
Wages and Prices Policy.

Shri P. C. Bhattacharyya,
Governor,
Reserve Bank of India,
Bombay.

PART A

GENERAL FRAMEWORK AND CONTEXT

If an operationally meaningful policy for incomes and prices is to be formulated, its scope and content have to be adapted to the economic context and goals of the economy ; and the relation of this policy to the other components of general economic policy has to be articulated. We shall consider in this Part the several elements in the economic conjuncture pertinent to the framework of incomes and prices policy in India and outline its main constituents and instruments of working.

I

Context for an Incomes Policy

2. Like the other parts of economic policy, incomes and prices policy should further the attainment of the wider social and economic objectives of planned development. These objectives, which have been reiterated in the Draft Outline of the Fourth Five-Year Plan, include : (*a*) the ensuring of a high rate of growth in the national product ; (*b*) progressive improvement in the standards of consumption of the mass of the people ; (*c*) enlargement of the opportunities for gainful employment in a measure commensurate with the increase in the labour force ; (*d*) achievement in course of time of self-reliance, in terms of balance of payments as well as in terms of capacity for producing machinery and essential capital equipment to sustain the process of growth ; (*e*) avoidance of inflation in carrying out the development programme ; this presumes the attainment of equilibrium between investment and saving ; and (*f*) creation of conditions for more equitable sharing of the national product and reducing the scope for concentration of economic power in private hands. The precise role of incomes and prices policy in furthering each of these objectives will vary ; and in defining this role, it will clearly be necessary to take into account the various other policies that are to be pursued for realising the Plan objectives.

3. While Plan objectives and policies constitute the general framework for measures of incomes and prices policies,

the features of the Indian economy as they are at present form another equally important part of the broad context to which the formulation of such policies has to be adapted. The main features of the economy that we have to bear in mind in considering the outlines of an incomes and prices policy appropriate to the Indian context are listed below.

(*a*) The major part of employment in the country is in the rural sector and more than half of the national income is generated in commodity-producing and service activities in this sector. Incomes accrue predominantly to households, typically on the basis of self-employment ; they are, further, generally low and subject to large variations from year to year on account of changes in agricultural production and prices. The distribution pattern is materially influenced by the pattern of land-ownership and tenancy arrangements, by traditional institutions and by the relative under-development of organised market and credit agencies. Inasmuch as incomes and prices policy encompasses measures for directly influencing and regulating incomes and prices, the scope for such policies is limited in the vast unorganised sector which has a preponderance of self-employment. Here the available instruments of direct regulation of incomes are extremely inadequate and price policy becomes a principal medium for such effect as it is possible to produce on incomes.

(*b*) In contrast to the rural sector, incomes in the urban sector originate from manufacturing industry, trading and other service activities. Moreover, a good part of these incomes accrues to firms and corporations, as distinguished from households, operating in better developed markets both for commodities and for factors of production. The working population is more variegated in terms of skill and training, better organised and on the whole better remunerated than the rural labour force.

(*c*) A significant part of output in the rural sector is retained by producers for their own consumption ; likewise, a considerable portion of rural investment is on the basis of direct rather than monetary savings. The counterpart of this phenomenon is that much of the transferable savings in the economy arises in the non-rural, non-agricultural sectors.

It is not possible, however, to make any wide generalisation regarding the sources of transferable savings being limited only to the urban and organised sectors. It is likely that with rapid economic development particularly agricultural development these sources would be both diversified and diffused over the economy.

(*d*) Despite progress in the last fifteen years, the industrial structure is still not large or diversified enough to provide the investment goods needed for enlargement of the national product on a continuing basis. As regards consumption goods, the bulk of them consists of agricultural commodities, processed or unprocessed. There has been some growth of consumer goods industries based on industrial raw materials in recent times, catering mostly to the urban population. But expenditure on these, as a proportion of total consumption expenditure, is still very small.

(*e*) Given the internal production structure, imports consist largely of capital goods and industrial raw materials, while the major part of exports consists of products of agriculture, agriculture-based industries and the mining industry.

(*f*) With their very low incomes, much of the population lacks the ability to provide for itself such essential requirements as adequate housing, education and health facilities. Nor have the basic infra-structure facilities like irrigation, power, transport and communications been developed sufficiently to support larger national production on the basis of more modern techniques of production.

(*g*) The generally low level of incomes, together with rapid growth of population, limits the scope for voluntary savings in the economy on the one hand and, on the other, leads to the generation of large demands for wage-goods as incomes rise. In consequence, acceleration of investment has required reliance on foreign savings to supplement domestic savings, both directly to supply the investment goods and indirectly to meet the larger demand for consumption goods in the wake of greater investment.

(*h*) Despite the low levels of income and consumption of the mass of the people, there are certain sections of the community having incomes very much above the national average and indulging in not only high but conspicuous consumption. Such disparity in income distribution or consumption standard prevails in different degrees in all sectors of the economy.

(*i*) Finally, the policies adopted for enlarging investments and production in the economy for technological and institutional reasons provide scope for a degree of concentration of economic power in the hands of the relatively better-off or better organised sections of the community.

4. All these are familiar characteristics of the Indian economy, and it has indeed been the purpose of India's developmental strategy to modify them and mitigate their constricting effects on economic and social betterment. We have drawn attention to them because they are part of the data for formulation of the specific objectives, scope and content of incomes and prices policy.

II

Incomes Policy : Experience of Developed Countries

5. At this stage we may turn to have a look at the experience in regard to incomes policies of some of the developed countries such as the Netherlands, Sweden, France, Norway, the United Kingdom and the United States. Despite much discussion of incomes policy in a number of these countries, there is hardly any operational incomes policy in any country except possibly the Netherlands ; the United Kingdom only recently has taken some concrete steps in this direction.

6. Wages, incomes and prices policies in these countries have been fashioned mainly in the context of problems of internal economic stress reflected in rising prices and balance of payments pressures in a background of full employment. In some of these countries, *e.g.*, France, the aim of incomes policy has also been to serve, in a pronounced way, as an adjunct to a programme of planned development so as to ensure an equitable sharing of the fruits of development. In others, as in the Netherlands and Sweden, incomes policies have sought to achieve, besides general economic stability, the objective of a more rational structure of wages and other

incomes based on social considerations. But, in the main, the aim of incomes policies in the developed countries has been that of securing stability of the general price level by ensuring that the increases in wages and other incomes do not outstrip the growth in the real national product. Policies for prices and non-wage incomes in many of them have been largely ancillary to the policy for wages, and confined in the main to special problem areas like agricultural prices and incomes, where excessive competition may reduce real incomes below socially desirable levels, or urban rental incomes and other areas where the demand and supply situation has made, on the other hand, for inordinately high prices and profits. Incomes policies in the context of developed countries have been largely concerned with policies for incomes which accord with the objective of ensuring maintenance of non-inflationary conditions conducive to orderly development as a basic framework, with a degree of income redistribution in socially desired directions and a degree of control of all categories of income.

7. However, in these countries, governments have generally found it extremely difficult to evolve suitable instruments of action for implementing their incomes policies. It has been found that the degree of success achieved in this regard is vitally conditioned, firstly, by the extent of adequacy of various other economic policies and, secondly, by the amount of support to the objectives of such policies obtained from the important social groups.

8. There is now more or less a consensus in thinking among the developed countries on the conditions for an effective incomes policy. These conditions are :

(1) In a period of excessive overall demand, incomes policy though useful can play a role only subordinate to fiscal, monetary and other economic policies. On the other hand it is in such a situation that incomes policy acquires a particular relevance and urgency.

(2) No incomes policy can succeed unless the major socio-economic groups accept it. It is, therefore, necessary to educate the various social groups with regard to the rationale for an incomes policy and its relation with growth.

(3) Incomes policy has a better chance of succeeding in the context of some sort of planned economic development which gives confidence to the groups that they could expect

their real incomes to increase faster with an incomes policy than without it.

(4) Incomes policy is unlikely to be acceptable and hence effective unless it takes into account the need for changing the income distribution in the light of social justice, and thus brings within its purview most types of incomes.

(5) There must be an appropriate administrative machinery through which an incomes policy acceptable to all groups can be evolved and which should not only develop appropriate criteria but should also indicate the policy instruments for enforcing them and keep a general watch over the process of income formation.

9. In industrial countries generally, emphasis on the growth objective and non-inflationary methods of achieving it has, furnished the occasion for formulation of incomes policies directed to limiting the strain on their price and cost structures and consequently on their competitive ability to step up exports as an engine of growth. In these countries, besides, incomes policy includes elements of income other than salary, *e.g.*, dividends, profits and other non-wage incomes, which are sought to be influenced through dividend policy and price policy. In developed as in developing countries the idea of incomes policy in particular is to follow up the distribution of incomes between spending (consumption) and saving.

Difference in context in India

10. The general context for an incomes policy in India is essentially different from that in developed industrial economies. In advanced countries, a large part of the working force is in wage-employment and self-employment is restricted to a much less important section of small business, industry and trading. In India, as in other developing countries on the other hand, self-employment of the working force is the rule. This encompasses, besides agriculture, the whole range of processing and cottage and small industry, distributive and retail trades, the transport sector, the professions, etc., all of which together are many times more important than wage and salary employment. In advanced industrial countries, incomes policy is more or less synonymous with wages policy and requires mechanisms for influencing or regulating the decisions of the bodies of employers and entrepreneurs with regard to the distribution of the total product of the firms or concerns under their charge between wages and rewards of other factors of production. In India, on the other hand, owing to the relative unimportance of the wage sector, the scope of incomes policy in this sense is considerably

limited and incomes policy should be interpreted to cover the incomes of large classes of the self-employed population. There is an advantage in considering incomes policy in this wider sense as relating to the incomes of various classes of the population with a view to focussing attention on the pattern of distribution of the national income or product which is also consistent with ensuring the attainment of development objectives. Incomes policy may thus be interpreted as referring to the aspect of economic policies which impinge on relative incomes and economic status of different classes of the population, in such wise as to promote the desired development process.

III

Planned Development and Role of Incomes Policy

11. There is a need for an incomes policy even in an economy with an internally consistent and balanced plan. The specific role of incomes policy is precisely to ensure that the broad pattern of generation of money incomes is consistent with the social objectives of the Plan and that disparity in income distribution and consumption is reduced. Besides, in the absence of an incomes policy a rise in wages in a section of industry initiated, *e.g.*, by a rise in prices of food may spread and stimulate further inflationary price and wage increases and so on. This spiral process can be avoided if instead of each group trying to exert pressure for maintaining and increasing its share of national income, the groups agree on the criteria for determination of income rises. It is the function of incomes policy to formulate such acceptable guidelines and criteria and enforce them through appropriate machinery and policy instruments.

12. The other specific role of incomes policy is with regard to the income distribution objective. If incentives to work and save are not to be adversely affected this objective should primarily be directed toward reduction of disparity in *consumption* standards. This second objective of incomes policy cannot be attained unless its first objective of maintaining a stable environment relating to the process of income formation is realised. And *a fortiori*, both these objectives cannot be realised if the plan itself is not internally consistent. These two functions of incomes policy are thus inter-related and are best attained if overall fiscal, monetary and other economic policies and the plan strategy are effectively devised.

13. The problems posed by the pursuit of an incomes policy are complex enough even in the sophisticated econo-

mies of the developed countries. They are more so in a developing country like India, which with its pervasive poverty and mounting population, has to raise sharply the rate of investment in the economy and, therefore, has to maintain the operation of the economic incentive in the form of increasing incomes. Furthermore, the problem of incomes policy becomes complicated in a large-sized country such as ours with wide regional disparities in resource endowment as well as differences in the levels of economic efficiency of various social strata of the population and in the degree of their response to economic incentives. Added to this, there are many areas in which even the basic statistical information needed to evolve appropriate policies is scanty if not totally lacking. Also, the complexity of the task necessitates governmental action on a more extensive front than in many other developed countries, while the existence of a federal structure of government, itself appropriate to the size and diversity of the country, makes co-ordination of vital policy decisions necessarily more difficult and time-consuming. Nevertheless, an incomes policy remains an urgent necessity in a developing country like India with a view to ensuring a reasonable degree of price stability, equitable distribution of national income and lessening the disparities in consumption standards.

14. The essential objectives of an incomes and prices policy in the Indian context would be :

(*a*) to generate from domestic income savings necessary for ensuring non-inflationary financing of investments ; this requires an array of policy measures directed towards restraining consumption of profit earners and earners of other non-wage incomes on the one hand, and, on the other, maintaining increases in wage incomes at somewhat lower level, than the increases in productivity ;

(*b*) to adjust domestic demands in such a manner as to minimise the pressure on balance of payments-the internal economic balance conducive to external payments balance ; and

(*c*) to narrow the disparities in real incomes as between sections of the community through more effective arrangements for distribution of the national product on as wide a basis as possible.

15. In pursuing these objectives concurrently, conflicts will arise because the changes in income structure

may not always be uniformly conducive to simultaneous achievement of all the objectives. Thus, industrial development necessary for redressing imbalances, or for import replacement and export diversification may have the effect of accentuating not only rural/urban disparities but also income and wealth differences in the industrial sector. Likewise, redistribution of incomes for improving the consumption standards of the poorer sections of the community may create difficulties in regard to adequate mobilization of savings domestically, and, therefore, in respect of adoption of capital-intensive techniques of production. Also, price policies directed towards enlarging the incomes of agricultural producers may, through their effects on cost of living, result in unhealthy pressures on money wages and money incomes elsewhere in the system.

16. Conflicts such as these cannot be avoided in any economy seeking rapid development and a move toward equalisation in the sharing of the national product at the same time. During each successive period of time, a view will have to be taken on the relative emphasis to be placed on either of these requirements. In general, the simultaneous pursuit of policies directed to furthering these various objectives will be easier when national income is growing than when it is stagnant. Clearly, the larger the additional income generated, the greater the facility with which incomes policy can be made to serve multiple purposes. It is also true that a successful incomes policy can itself contribute significantly to a greater rate of growth of savings and a quicker growth of national income. It is in this sense that an effective incomes policy can supplement and subserve the promotion of the general objectives of economic policy and thus contribute to a better and more effective performance of the economy.

IV

Incomes and Prices Policy: Its relation with other aspects of economic policy

17. The objectives stated at the beginning of this Part of the report will be sought to be achieved through various elements in economic policy and only in part through what may be termed incomes and prices policy. Also, the structure of incomes or of prices cannot be wholly identified with some particular index in relation to which policy is formulated. In practice, the question is of linking one or more of these requirements to measures which directly impinge on different types of incomes and different prices in the economy. In

doing this, it will be useful to conceive of incomes and prices policy as an adjunct to investment policy, fiscal policy, foreign exchange policy or policy for institutional changes etc. Admittedly, the boundaries between each such set of policies cannot be firmly drawn, and there will be areas of common interest. What these areas are and how particular aspects of policy should be emphasised in relation to each of them are matters for judgement in any given period.

18. To get a clearer focus on incomes and prices policy we may set down briefly the major areas of overlap between the different components of economic policy. In the first place, since income *generation* is concurrent with the production process, the investment and production policies adopted for realising planned rates of growth in different sectors of the economy are themselves a major determinant of the structure of incomes. However, there is no guarantee that the pattern of income generation on the basis of the investment and production policies will automatically give rise to aggregate savings and demands for various goods and services so as to promote balanced achievement of the general economic objectives of policy. For this purpose, it will be necessary to alter by deliberate policy, the patterns of *accrual* and *use* of the incomes generated. It is essentially with this type of modifications that incomes and prices policy will be concerned.

19. This does not, however, mean that such modifications will have to be of an across-the-board type. Indeed, insofar as investment and production policies are geared to the objective of enlarging for economic or equity reasons, the incomes of particular sections of the community or of particular factors of production, they will already constitute a part of, and set the framework for incomes policy ; and any further modifications in the accrual or use of incomes should be of the type which supports this pattern of income generation. In the Fourth Plan period, for instance, high priority is given to agricultural development and transformation. The implementation of policies associated with this priority will add substantially to the incomes generated in the agricultural sector, and these incomes are *intended* to accrue to the agriculturists and be available in substantial part for raising their standards of living. Likewise, there are elements in the investment programme for the industrial sector designed specifically for the purpose of promoting village and small-scale industries ; these aim at generating certain types of incomes which could be considered as part of an income redis-

tribution policy appropriate to the Indian economy. These are areas in which the scope of an incomes and prices policy as such will be limited to adjustments needed for reducing intra-sectoral disparities and facilitating the mobilization of additional saving from the additional income generated. As stated earlier, these are the very areas in which the direct role of incomes policy limited as it must be by the instruments available for its enforcement, is, indeed, not a large one. In contrast to this, in other areas such as the trading and real estate business sectors, for instance, there is no planned investment programme designed to enlarge the relative share of incomes generated. Nevertheless, as the economy grows in size, some additional incomes will be created in these sectors and these may require to be modified by appropriate measures.

20. As in the case of investment policies, a variety of income and price adjustments will be inherent in the measures that will be taken to deal with the balance of payments problem. Insofar as the enlargement of exports is a *sine qua non* for long-term economic viability, there should be a relatively rapid growth of incomes of those engaged in export activities. This again is a component of the envisaged pattern of income generation which will have to be supported by the incomes and prices policy adopted.

21. In our conditions the problem of distributing the income available between the income accruing to the Government and that accruing to the rest of the economy, suggests another important aspect of policy. This aspect is largely synonymous with policies required for maximising the internal resources for growth. It points up the relevance of developmental considerations in the formulation of incomes policy, and in particular the overriding importance of the objective of increasing savings and capital formation and restraining increases in consumption during the initial phases of development. The special role assigned to the State in the economic field is, indeed, a factor in the development strategy which is somewhat different in character from the elements discussed in the previous paragraphs. This role incorporates, among other things, measures intended to secure an increase in the incomes generated as well as in the incomes accruing to the State by reasons of public investment and ownership ; it also emphasises the use of fiscal instruments for limiting private disposable incomes and for enlarging through public expenditures the real standards of consumption of the poorer sections of the community. Expansion of the public sector's

activities in these directions constitutes a recognised instrument for reallocating the incomes generated in the economy. Inasmuch as policies of income redistribution will necessarily mean the transference of incomes in the private sector from groups with some propensity to save to those whose ability to save is nil or negligible, it will be necessary in the present state of economic development to seek an enlargement of institutional savings which would more than offset any diminution in household or personal savings that may occur in the redistribution process. Increased public savings and a widening of the area of collective consumption are a very important means to this end. A greater part of what might legitimately be viewed as the concern of incomes and prices policy will thus be covered by fiscal measures associated with the policy of progressive expansion of the public sector.

22. What all of this implies is that the instruments which are to be used for increasing domestic production, improving the balance of payments, and enlarging the investment and welfare activities of the public sector will, among them, constitute the main content of income formation and set its pattern for the most part. Similarly, the trend and level of prices will be powerfully influenced and largely determined by fiscal and monetary policies. If the basic fiscal and monetary outlook is strongly inflationary and disruptive of external balance, incomes and prices policy as such will be largely infructuous and inadequate by itself to restore the balance of the economic system. If, on the other hand, the decisions to avoid deficit-financing and restrain credit expansion to the requirements of genuine productive activity can be effectively implemented, an incomes and prices policy as such may be largely redundant. It is precisely in this general context, however, that such a policy has its best chance of success, for its role is subsidiary to that of other economic policies which set the general pattern of income generation and distribution. Some of these relate to measures such as land reforms, regulation of joint stock companies, regulation of banking and financial institutions, physical controls, labour legislation and so forth—all of which have a bearing on distribution of the national product as well as on price formation.

23. Given this large area of overlap, it is difficult to envision a separate, self-contained incomes and prices policy. What would perhaps be more useful is to focus attention on existing or likely distortions in specific incomes or prices in

regard to which corrective steps of a direct nature may be additionally required. This then forms the special province of incomes and prices policies.

V

Incomes and Prices Policy: The Problem of Income Categories

24. In a large, developing economy such as ours, we have of necessity to group incomes and prices in operationally distinguishable categories, and identify the instruments that should be used for adjustment in each of them for moving towards the general objectives of such policies. In doing so, we have to adapt the categories to suit the special characteristics of the Indian economy. It is also advantageous to think in terms of incomes and prices separately, though changes in them are closely inter-related over large sectors of the economy. On the basis of the characteristics of the existing economic structure outlined earlier, there are four broad types of income disparities which enter into the thinking on economic policy in India and have, therefore, to be considered in framing the approach to incomes and prices policy. These are :—

(*i*) Sectoral categories—such as rural and urban incomes or agricultural and non-agricultural incomes ;

(*ii*) Functional categories—that is to say, wages, profits, rent and interest ;

(*iii*) Size categories—or high incomes and low incomes, especially in regard to personal incomes ; and

(*iv*) Institutional categories—such as Government incomes, corporate incomes and household incomes.

25. There are other ways of classifying incomes which cut across these formulations—as for instance, incomes of different regions, contractual versus non-contractual incomes and so forth. But since the scope of income redistribution—difficult and complex enough as it is—for realising one or more of the objectives mentioned earlier can be conceived in terms of the above main types of income-groupings, it will be adequate to consider the policy aspects relevant to them.

26. In respect of all these approaches to the question, the crux of incomes policy in our context consists of achieving a 'fair' distribution, consistent with the economic objectives of larger capital formation and structural change conducive

to self-reliant growth. *Prima facie*, it may appear that the measures for reducing disparities in terms of one category would also serve a similar purpose in terms of the others. For instance, any policy which enlarges the relative share of rural incomes in total national income would broadly imply an increase in the share of low incomes, or of households. But this connection is in fact a loose one and the criterion of fairness has to be redefined in a manner appropriate to each set of categories. It is, therefore, necessary to bear these various distinctions in the overall context of the growth objective in mind while formulating policies for 'fairer' distribution of national income.

27. Planning aims at bringing about a change in the relative contributions of the different sectors of the economy to the national product. In the main, the plans envisage a faster development of the manufacturing and service sectors than of the agricultural sector. In the Fourth Plan period, for instance, agricultural production is expected to increase by about 31 per cent, whereas an increase of over 68 per cent is postulated in the case of industrial production. Likewise, in terms of new employment, the Draft Plan i expected to provide additional employment to 4.5 to 5 million workers in agriculture and to about 14 million people outside agriculture. The objective, in other words, is to alter the structure of sectoral income-generation in such a way as to reduce the *relative* share of agriculture in the total national product.

28. Superficially, this type of modification might create the impression of deliberately enlarging the urban/rural disparities which already exist. This is, in part, a valid inference inasmuch as average incomes in the manufacturing and service sectors tend to be higher than the average of agricultural incomes. But there are two further considerations which are relevant in this context. In the first place, a diminution of rural/urban disparities is dependent not merely on the rate of increase in agricultural incomes but also on an increase in the relative share of non-agricultural incomes generated in the rural sector. Spatial dispersal of industrial activity envisaged in the Plans is an instrument for maintaining the relative share of *rural* incomes as distinguished from *agricultural* incomes. Secondly, it is necessary to distinguish between the income generated and the disposable incomes available to persons in the urban sector. It is in terms of the latter that rural/urban disparities should be measured ; and

the trends in growth of disposable incomes in the urban sector can, through institutional and fiscal means, be made different from the production trends in the non-agricultural sectors. In other words, though one may commonly talk of reduction in rural/urban disparities as an aspect of equity in income distribution, equity is in practice a question of 'fairness' in the distribution of personal or household disposable income—and that too primarily in relation to real consumption standards. In this context it must be appreciated that the very technique and *modus operandi* of development is based on a relative contraction of the agricultural and rural sectors and steady transference of the labour force to the industrial and service sectors in urban areas. The faster growth of industry and larger absorption of annual additions to the labour force in non-agricultural employment are other facets of the same phenomenon. In effect, a progressively greater *proportion* of the population will, over time, derive employment and earnings in the better paid sectors of the economy in a steady upgrading of employment and incomes. Any attempt, therefore, to view the problem in simple rural/urban terms misses the essential character of the process of economic development.

29. As in the case of sectoral incomes, the Plans will affect the distribution of income between functional categories also. With the coming into existence of new production activities and the progress in technology, factor combinations in the different sectors will alter significantly. In both the industrial and agricultural sectors, the Plans envisage the adoption of new techniques of production requiring the use of more capital per worker as well as of more skilled labour. They also seek, in general, to raise the productivity per unit of input of every factor. Consequently, with the growth of the national product, the relative share of each factor of production will vary in accordance with the changes in factor-combinations, in productivity and in the institutional framework affecting the relationship between productivity and factor-rewards.

30. One of the major changes implicit in the programme of development adopted by India is that of augmenting the total supply of capital in the economy, principally through domestic effort. Having regard to this objectve in the context of economic transformation it would be desirable not to apply the equity criteria to changes in the proportion of aggregate wages or aggregate non-wage incomes to national

income. These changes in aggregative terms should be viewed in relation to the economic requirements of growth and diversification—as in the case of the relative shifts in agricultural and non-agricultural production referred to earlier. It is to the subsequent stages of readjustment in the size-distribution of *personal* incomes that concepts of 'fairness' have relevance.

31. We have, in an earlier section, indicated the integral relationship of incomes and prices policy with the other policies which form part of the developmental strategy, and the need for recognising their role in altering the structure of relative incomes as well as influencing the general level of incomes. However, the categories of income relevant to investment policy or fiscal policy need not be, and often are not, the same as would be relevant for incomes policy from the viewpoint of distributive justice. It will be necessary to adopt income-classification which has operational significance for the different components of general economic policy. Further, since low incomes are not confined to any one sector or any one functional category, not all such incomes can be benefited by the same type of policy measures in an equal degree. Steps taken to add to low incomes in the agricultural sector could in certain circumstances affect those with low incomes in the industries or service sectors adversely. Similarly, a policy for increasing wages in the organised industrial sector is apt to have a limited impact on the share of wages in national income, since a large part of wage-incomes arises elsewhere in the system—in the agricultural sector, partly in the form of earnings of the self-employed. What these instances imply is this : in visualising an incomes policy for India, it will be appropriate to start with a distinction between incomes in major sectors like agriculture, industry and services ; and then, within each sector, distinguish the functional categories of wages, rent and profits. The set of measures to be adopted can, therefore, be conceived in terms of shifts in these various elements in the major sectors.

VI

Criteria for Incomes Growth and Distribution

32. We turn now to the questions of basic framework for incomes growth and equity in income distribution. As has already been observed, it is essentially in respect of the pattern of personal disposable incomes that these questions are relevant. Though certain changes in sectoral or func-

tional shares in national income implicit in the development programme would be beneficial to the poorer sections of the community, sectoral shifts derive their rationale more from economic than equity considerations. In discussing the criteria for regulated growth of incomes and fairness in distribution, we have therefore to focus attention on that part of national income which accrues directly or indirectly to persons or households.

33. There are two aspects of the concept of equity in income distribution from which this question may be viewed. One of these is in terms of the acceptable range of variation in personal incomes, and as a corollary in standards of personal consumption. It is in this context that notions such as a 'national minimum income', 'minimum wages', or 'ceilings on incomes' are brought up in discussions of policy. Minimum wage is essentially a need-based concept, linked with normative scale of minimum consumption requirements to be provided to every citizen in a 'just' society. The second approach to 'fairness' is in terms of ensuring comparable rewards for comparable work, or for comparable contributions to the national product. This raises questions of equity not only in regard to 'income from work' as against 'income from property' or 'earned' versus 'unearned' incomes, but also in respect of differentials in wage and salary incomes as well as in profits from enterprise. It also concerns the issue of the general pace of growth of incomes which may be consistent with the requirements of incomes policy.

34. No structure of incomes can be so regulated that it will satisfy both the criteria of a range of variation and, within that, adjustment of rewards to effort in a manner regarded as fair by all sections of the community. Indeed, the contribution of each individual or agency to the national product will be widely different for a variety of reasons, and maintenance of a narrow range of variation in the size-pattern of personal incomes may not be consistent with a strict adherence to the second approach: for assuring the maximum stimulus to growth and improvement of efficiency, it will be important to use differential rewards as incentives to increased production or savings. Taking this into account, the practical problem would be one of defining the limits within which income-variations could be contained and made socially acceptable.

35. On a first view, this would appear to require the setting of a floor at one end and a ceiling at the other to per-

sonal incomes—adjustable from time to time—in a manner which would command general approval and be capable of being effectively administered. Within the limits, the links between rewards and contributions to production should be more clearly established, and the obstacles to attaining higher productivity levels removed or minimised. Admittedly, even within a range defined for the economy as a whole, the distribution of high and low incomes in each economic or social sector may vary and may well be allowed to vary under the free operation of market forces.

36. The laying down of a floor for incomes or of a 'national minimum' of income and consumption to be assured to all citizens within a reasonable period is a useful starting point for consideration in this respect. A Working Group which reported to the Planning Commission in July 1962 had suggested that such a 'national minimum' should be not less than Rs. 20 per capita per month at 1960-61 prices, or Rs. 100 per month per household of 5 persons. The Group put the figure for urban areas somewhat higher, at Rs. 125 per household, to cover the higher costs in such areas. The calculation excluded the expenditure on health and education, for both of which the State would have a large measure of responsibility and included an element of subsidy in urban housing after taking 10 per cent as the rent element from the proposed national minimum. The target period for achieving the national minimum was indicated as fifteen years from 1960-61, *i.e.*, by the end of the Fifth Five-Year Plan. The Draft Outline of the Fourth Five-Year Plan has not indicated any particular target of 'minimum income' on the above lines. But it has emphasised that the perspective plan, when reformulated, should aim at "bringing about a significant rise in minimum incomes, both by increase in employment and increases in the social services provided by the State" (p. 29). And while stressing the need for austerity in consumption, the Outline says that the attitudinal changes needed for this purpose "would also have to be accompanied by limiting the disposable incomes of the better-off sections of the community in the direction of reaching a desired range between minimum and maximum personal incomes" (p. 36).

37. While the setting of a national minimum income seems desirable from the point of view of social justice, its implementation presents some real problems and has important policy implications which must be clearly recognised. The concept of a national minimum is predicated on the

assumption of provision through public expenditure of specified benefits to every member of the community, and provision through public finance policy of large transfers from the better-off sections of the community to the mass of the people. Under the existing conditions of unemployment, underemployment and low incomes, even a modestly defined minimum income on a national scale cannot be ensured through the mechanism of fiscal or administrative transfers of incomes or by economic regulation which can be effectively enforced over the economy as a whole. Progress towards a national minimum has, therefore, to come largely through increases in investment, employment and productivity—not in any one sector but in all the sectors taken together. There will thus be no point in setting a formal target for minimum income unless the related targets for growth in national income and in total employment are adjudged to be feasible and can be taken as commitments. It is the willingness to undertake and the ability to implement the commitments involved which would determine whether or not the setting of a minimum income target is operationally meaningful.

38. Similar considerations apply to imposition of a ceiling on incomes. A ceiling for personal incomes will involve limitation of *total* property rights as against property in any specific form as well as restriction on freedom of contract if incomes are to be *directly* regulated at the stage of accrual. Since a direct limitation of incomes is impracticable a ceiling on incomes in effect requires 100 per cent taxation of incomes above the ceiling limit, at whatever level this is fixed. In these terms, however, a ceiling is actually in operation in the country, with the combined incidence of taxes on income, wealth, estate and gifts exceeding the amount of income taxed. But the magnitude of tax avoidance and evasion is large and the volume of grey and deeper hues of incomes is considerable. The point here is that a ceiling on incomes can be thought of only for groups with readily identifiable or visible incomes such as salary earners. It is extremely difficult to apply it in practice to the self-employed such as independent professional classes or businessmen, whose income may be above the ceiling proposed but may not be capable of being reached easily. Therefore, the policy of imposing a formal ceiling would operate very unevenly particularly as imposition of 100 per cent income taxation as such would give a tremendous fillip to tax evasion and thus act as a major deterrent to productive activity.

39. Furthermore, unlike the common categories of labour whose mobility outside the country is limited, the salaried classes in the higher ranges enjoy a potential mobility which, while it can reasonably be restricted to some extent so as to retain essential skills within the economy, cannot be absolutely controlled, except with consequent constriction of democratic values and losses even in purely economic terms. The phenomenon of 'brain drain' or leakage abroad of the highly educated and trained personnel observed in other countries has appeared in India also. Even if quantitatively not significant until recently, it has important qualitative effects on the economy. The policy of a direct ceiling on incomes—an indirect ceiling, as observed above, already exists, would aggravate further the problem of 'brain drain' at a time when the lack of technological skills required to put through many sophisticated projects has become a real bottleneck in the economy. Unless the ceiling is fixed too high to be socially meaningful, its imposition would affect the incentives to work and to save with serious overall adverse effects on growth. As observed above, though the principle of a ceiling on incomes has in fact been carried into effect through the fiscal policy, the practical results leave much to be desired. It is important to ensure uniformity of tax incidence which is a function also of the efficacy of tax administration. Tax administration in turn can be facilitated by a tax structure which sustains the incentive of the tax-payer to work, save and invest.

40. In the main, therefore, the approach to the regulation of high salaries should be the same as for other high incomes. A reasonable system of progressive taxation, restrictions on wasteful and conspicuous consumption, avoidance of conditions of excessive demand and generally ensuring that profits and other rewards are earned in a competitive setting would seem to be the appropriate frame for the control of these incomes.

41. In sum, specification of a range for personal incomes in terms of a national minimum and a national maximum income is not by itself a policy measure capable of *direct* implementation, particularly in a mixed economy such as ours. The levels so specified have to be reached through various other policies directed towards the creation of employment and incomes in particular areas, and limiting the addi-

tions to real income of those in the upper income brackets. And as has been emphasised throughout, any such economic shifts should be consistent with the requirements of capital formation for economic growth. Even without specifying a rigid or precise range, however, the nature and extent of investment and production, and fiscal and institutional policies, should be adapted so as to take the economy towards a fairer pattern of personal incomes and personal consumption standards. Moreover, a periodic assessment should be made of the progress toward narrowing disparities in income and consumption as an incident of development.

42. In regard to the second aspect of fairness in distribution, namely, the ensuring of comparable rewards for comparable work, the general criterion that could be laid down is that incomes should be determined by the productivity of the factor or person concerned. This criterion could also apply to the regulation of overall growth of incomes, such regulation being more effectively applicable to the rate of *increase* of incomes than to the absolute levels of incomes. But this criterion can have applicability only under conditions in which the contribution of factors or individuals can be unambiguously measured irrespective of the sector or the occupation concerned. If factors of production including labour could in reality be perfectly mobile, the market forces of supply and demand might conceivably enable the achievement of equal reward for equal contribution to the social product and the resultant pattern might furnish the measurement of reward in relation to contribution. However, where these conditions do not in fact exist, the concept of fair relativities has to be administratively determined.

43. In this context a certain distinction has to be drawn between wages and some categories of salaries on the one hand and remaining incomes on the other. Although all incomes, wage and non-wage, are ultimately rewards for the supply of factors of production *e.g.* labour, capital, organisation, etc., the process of determination of wages differs from the determination of other incomes. Wages and salaries are, by and large, determined by negotiation or are fixed by awards. Even if such negotiations or awards cover only a part of the wage earning class, they tend to set a pattern for all wages generally. The course of money wages, is, therefore, primarily influenced by the considerations governing the negotiations or awards, this being particularly true under conditions in which there is little tendency for a 'wage

drift' or payment of wages higher than at the negotiated rates. A policy for wages thus requires that the negotiations or awards should take account of the appropriate measures of productivity.

44. In the case of non-wage incomes, on the other hand, the problem of relating such incomes to productivity can in practice be approached through identification and elimination of non-functional elements in such incomes, so that they would broadly represent real rewards for efficiency, effort and savings. This will not, however, always be possible, and often what can be done will consist only of adjustment through administrative measures of the relative price of the service rendered so as to modify to some extent the interplay of market forces.

45. As mentioned earlier, the essential content of incomes policy and of its principal constituent *viz.*, wages policy as it has evolved in many countries is to relate changes in the rewards for labour as for other factors of production to changes in productivity. Having regard to the main motivation for the evolution of incomes policy the underlying idea of this linkage, as explained earlier, is to avoid an increase in money incomes or wages at a greater rate than the growth of productivity, measured in one or the other of several alternative ways, primarily with a view to restraining cost-inflation and ensuring stable economic growth. With regard to the position in India, the Draft Outline of the Fourth Plan suggests: "The total wage should have three components, namely the basic or minimum wage, an element related to cost of living and an element related to increase in productivity. In seeking to link wages with increase in productivity, the need for standardization of wages and for narrowing of wage differentials should be kept in view, having regard particularly to those categories of workers whose wages are at present unduly low" (p. 393). This formulation combines both the approaches to fairness discussed in the earlier paragraphs. The Draft Outline suggests that wage differentials should be narrowed down, but in doing so, special consideration should be given to those whose wages are at present 'unduly low'.

46. We have referred so far to the issue of linking of wages to productivity in general terms and without considering what measure of productivity would be appropriate for the purpose. Should it be productivity in the economy as a whole, in the manufacturing sector, in the industry concerned

or in the industrial unit or undertaking or a part of it? From the point of view of the objective of steady growth in an environment of comparative price and economic stability the measure of productivity which would seem relevant and appropriate for setting the general course of incomes is productivity in the private economy as a whole (*i.e.*, the economy excluding Government services).

47. There are qualifications to this general standard of adjustment which have to be considered. In the *first* place, the generally accepted major guideline of relating the increase in incomes or wages to the increase in the overall labour-productivity in the private economy has to be modified somewhat in application to the conditions of a developing country like India. The assumption that an increase in incomes equal to the growth of labour productivity would not give rise to inflationary pressures, may be true of certain developed economies where ratios like capital-output and saving-income have attained a certain stability, where a more or less balanced growth of the agricultural and industrial sectors takes place and where no major inter-sectoral shifts in the labour-force occur. In Indian conditions, however, these ratios, far from remaining stable, actually have to move up for ensuring a rapid economic growth. Thus, for instance, domestic saving as a proportion of national income is expected to increase from about 9-10 per cent at present to about 13 per cent in 1970-71. Similarly, because of the use of more up-to-date techniques of production in the economy generally, capital per worker may have to increase. All this implies that an increasing portion of the growing income has to be diverted for savings and capital formation, which would not be possible if the entire gains in productivity are diverted to increased consumption. To the extent that the gains from productivity are reflected in higher profits, fiscal policy can be so adapted as to restrain consumption of profit earners and promote savings both in the private and public sectors. As regards wage incomes, the arrangement should be such that the increases in wages allowed are somewhat lower than the full extent of the improved productivity. This is particularly necessary while there is a certain degree of inelasticity in the supply of wage goods in India. It is possible, however, to allow the extent of increase in wage incomes to approximate to increase in productivity provided a very intensive programme to popularise the schemes for higher savings by the wage earners can be initiated and implemented.

48. *Secondly*, a rigid application of the principle of *uniform* adjustment in money wages in all sectors of the economy at a rate equal to the average rate of change in productivity in the private economy—even if modified by the slower tempo of increase of consumption— would be unworkable over the short period. Owing to psychological and institutional factors, money wages generally behave as if they have a ratchet which permits them to move only upward but not downward. This applies particularly to areas in which money wages are the result of a negotiated settlement or an award. Money wages may not, therefore, follow any short-term downward changes in productivity, *e.g.*, when agricultural output falls. It follows, too, that if the average increase in wages is not to exceed the rate of improvement in productivity, money wages cannot be allowed to go up at a rate equivalent to the increase in productivity in years of abundant agricultural crops. On the other hand, if the *raison d'etre* of linking money wages to productivity is to prevent growth in overall demand from outstripping increase in supply, the relationship to productivity should apply not only over the long-term but equally to the short run or to the year to year variations in productivity. Wage increases would, therefore, be opportune and justified consistently with the productivity criterion particularly in good agricultural years when supplies improve.

49. In the agricultural sector, short-period changes in productivity due to variations in agricultural output caused by weather and other natural factors are not only possible but common. Even if necessary action in the field of agricultural policy in the direction of stabilisation of agricultural output and prices is taken, it is not practicable to eliminate the incidence of short-term variations on an index of productivity. When these short-term factors, *e.g.*, a downturn of the agricultural cycle, have the effect of limiting the trend growth of productivity, increases in money wages and incomes should, *for this reason*, be moderated, though at such a time other factors like rise in prices and costs of living which are likely to concur, may exert an upward pressure on wages. On the other hand, if money wages and incomes have been thus restrained for reasons of low productivity for a period, they might justifiably rise in response to a higher short-term trend in productivity associated, for example, with a succession of bumper harvests, though the incidental fall in prices and costs of living indices at such a time might operate as a restraint on an increase in money wages. On the whole, a good guide for

changes in money-wages in terms of the productivity criterion which smoothens the impact of short-term fluctuations, would be, for instance, to use an index based on a five years' moving average of the rate of change in productivity. It would be an approximation towards the average long-term trend in productivity.

50. *Thirdly*, the use of the average trend rate of productivity for the entire economy as a basis for wage adjustment, has to be modified owing to varying sectoral rates of growth. It may be necessary, in these conditions, to permit money wages to rise at higher or less than the average rate in some industries and sectors. Wages of workers in industries with particularly high and rising productivity, which include wages in categories of labour with special skills may increase at somewhat higher rates than other wages. However, along with this, there should be specific policies adopted for encouraging the flow of labour into developing industries and to call forth the supply in required numbers of workers of various skills. As part of such a policy, and partly to offset its inflationary impact, the rewards (of labour as well as profits) in non-priority or declining industries should be allowed to rise only at less than the average rate so that factors of production may be induced to move out of such industries. However, as experience in other countries shows, the importance of changes in relative wages for bringing about occupational and industrial shifts in employment should not be exaggerated. They have to be accompanied, to be effective, by pursuit ot a purposive fiscal policy to this end.

Reward for Capital

51. Related to regulation of the reward for labour or for services of special groups of the working population is the question of 'fair' rewards or returns for capital. The scope for direct regulation in this sector is, however, limited to industries operating under price controls and some degree of distribution controls; and the main reliance for regulation of profits, dividends etc., has to be placed on fiscal policy. Also, the scope of the price-controlled sector itself should be under continuous review for keeping the pattern of control in tune with the general objectives of economic policy. Various criteria have been evolved in this respect by bodies like the Tariff Commission and special committees constituted from time to time to recomemend prices or returns in particular industries. The formulae adopted by them have varied regarding the definition of the capital base on which the return is to be comper-

ted, the kind of costs which the proposed return should cover and the rate of return to be allowed.

52. Since conditions in different industries will vary as regards risks, sources and requirements of finance, and future investment needs, no formula equally applicable to all can be conveniently prescribed. In the interest of efficiency, the criteria adopted should be such as to allow a higher rate of return to the more efficiently managed undertakings. Since such formulae would apply only in a limited number of cases and the returns in controlled industries would have to take account of returns elsewhere, it is necessary to ensure through constant review that these returns remain generally in alignment with returns in the rest of the economy. Here too, the guiding principle should be to offer a return which would be adequate to attract enough resources in a competitive market for capital and other factors of production so as to enable the industry concerned to expand at the desired rate. Where expansion is hampered by other factors than the rate of return, the offer of fair return would have to be supplemented by other policy measures to promote growth, including larger public investments. On the other side, the returns in non-priority industries should be reduced sufficiently through fiscal and credit policy, so that additional resources are not diverted into these industries in an undue measure.

Agricultural Wages and Incomes

53. Much of our discussion of wages in earlier sections has been concerned with industrial wages which are usually subject to negotiation on a collective basis and are amenable to some degree of policy regulation. However, a far larger question is that of labour incomes in agriculture. The problems here are also vastly more complex and difficult, since employment is in considerable part casual, seasonal or non-regular and wages are governed to a substantial extent by non-economic elements such as tradition and caste. Besides, wages are not always paid in money though the degree of monetisation or payment in cash varies according to the crop and has been on the increase. It is estimated that about half of the man-days worked by casual adult workers is paid for by cash, about 40 per cent in kind and the remaining in terms of both cash and kind. There are considerable disparities in wages between regions, between different crops as well as between the wages paid to men, women or children.

Owing to these conditions, agricultural labourers are not able to employ methods of collective bargaining.

54. Although Government has attempted to fix minimum wages through legislation, its implementation has been beset with a number of difficulties which arise mainly from the basic ills of poverty and illiteracy as well as from such structural factors as the small and scattered nature of agricultural farms, the casual character of employment, the dispersal of farms etc. All these difficulties only serve to emphasise that the predominant components of any policy for agricultural wages will have to be, at this juncture, a sustained improvement in the productivity of agriculture and the ensuring of a stable and reasonably remunerative price for agricultural products. These, together with such transfer of labour from agriculture to industry as could be organised in consequence of growth of the industrial sector, should between them provide the main means for improvement in the wages and conditions of work of agricultural labour.

55. The question of self-employed persons in agriculture is somewhat different from that of agricultural labour. Although in terms of income received these persons are not significantly better off than agricultural labourers, they are in a position to benefit directly from any increases in productivity that may occur as a result of investment programmes of the Government, provided the prices of agricultural products are maintained at a remunerative level. Therefore, the problem in their case is mainly one of an appropriate prices policy.

Salaried Classes

56. In regard to salaried classes, there is hardly any difference at the lower end between their economic status and that of the wage-earners, though unlike in the case of wage-earners, it is difficult to rate salaried employees in terms of productivity, owing to the administrative nature of their duties. On the whole, at the lower end the policy in regard to incomes of the salaried class may bear close parallel to wages at the corresponding levels of industrial labour ; the basic consideration here is similarity of needs and standards of skill and educational attainment of the workers rather than comparability of their contribution to productivity. At the higher end, salary earners render services comparable to those of entrepreneurs or independent professionals with specialised skills.

57. The norms for incomes adopted in the public and private sectors for persons with equivalent skills have come to be different. Whereas in the public sector a policy of reducing income disparities between the lowest and the highest paid employees has been followed, in the private sector the determination of remuneration, particularly in the highest income brackets, does not either reflect any such policy or always derive from an application of strict economic criteria, being influenced by social and other considerations as well. However, for rationalisation of the structure and system of private sector salaries, reliance has to be placed more on appropriate fiscal policies and development of modern management practices than on imposition of formal regulations for direct fixation of emoluments.

58. The problems of salaries, including salaries within public sector undertakings, require a careful and considerate approach which takes fully into account the need, on the one hand, for avoiding inflationary spirals and, on the other, for imparting to the wage and salary structures in the private and public sector undertakings, especially for scientific, engineering and technical personnel, a resilient quality conducive to improving efficiency and maximisation of effort and output.

VII

Conclusions and Guidelines for Incomes Policy

59. The conclusions regarding an appropriate policy for wages and money incomes which emerge from the foregoing discussion as well as those which are brought out more fully in Part B may now be briefly set out.

(*i*) Administratively, the scope for regulation of wages is limited to areas of organised industry and economic activity where modern processes of production are used. The problem of wage regulation in agriculture is basically different from that in industry.

(*ii*) As a general rule, we should aim at regulating movements in money incomes so as to keep incomes in step with trends in national productivity moderated to some extent by the need to maintain a slower growth of consumption.

(*iii*) In measuring productivity it is necessary to take into account both the long-term and short-period trends. A five years' moving average of the rate of change of productivity in the economy would be a good general guide for regulating changes in money wages.

(*iv*) The trends in productivity are to be considered as outer limits for wage and income adjustments, so as to prevent increases in wages and incomes from generating inflationary pressures. In actual implementation, however, the productivity criterion, should be so operated that the entire gains in productivity are not absorbed by immediate increases in consumption. A suitable modification of the productivity criterion would be to allow an increase in wage rates at some combination of the trend rates of growth of productivity and consumption in the economy, both based on five years' moving averages, so as to provide the necessary margin for growth of savings and capital formation in the economy.

(*v*) Productivity would be rising at varying rates in different sectors. Employees in those sectors where productivity rises faster than the national average may have a claim to get increases in wages somewhat higher than the national average increase in productivity, especially where this is warranted by the contribution of labour to productivity. Correspondingly wages in the other sectors where productivity rises less than the national average would have to rise at rates somewhat lower than the national average. The best general rule, however, is to regulate increase in wages and money incomes in different sectors and industries at a rate which takes account both of the growth of productivity in the sector or industry concerned and in the economy as a whole.

(*vi*) Productivity-linked wage schemes should in general be such as will enable a part of the benefit of rise in productivity to accrue to the community in the form of lower prices of the products concerned.

(*vii*) In operational terms in determining the income levels of various functional groups a variety of other factors such as the basic minimum or need of social amelioration, cost of living increases and incentive wages for the promotion of economic efficiency have to be given due weightage along with the trend in productivity.

(*viii*) Positive production and price policies are necessary to make an incomes policy effective, because rising prices of essential consumption goods depress real incomes directly and have the indirect effect of accentuating the degree of income inequality. This implies that there should be a close relationship established between incomes policy and production and investment and price policies.

(*ix*) Attainment of the objective of raising the incomes of workers would be facilitated if labour efficiency is raised through free and compulsory education, provision of minimum health and housing facilities, etc.

VIII

The problem of relative prices and price-determined incomes

60. We have so far discussed the problem in terms of income categories. It will be appropriate at this stage to refer to the view that may be taken in respect of the price-structure. Here again, the task of classification is not an easy one, since the manner of grouping the prices would vary with the purpose in view. However, a workable classification has to be derived for fashioning the tools of policy.

61. Leaving out the 'prices' of factors of production, the structure of commodity prices can be described in terms of the relationships between prices of consumption goods and investment goods, wage-goods and other commodities, agricultural commodities and manufactured articles, and domestically-traded goods and internationally-traded goods. In addition, it is possible to distinguish between prices, the changes in which will have widespread cost or income repercussions and those with limited multiplier effects. As in the case of incomes, the price categories will have to be devised, for operational purposes, with reference to more than one type of grouping. This is for the obvious reason that not all consumption goods prices nor all agricultural prices are amenable to a common policy instrument or are formed in the same type of markets. It will, therefore be useful to consider questions of price policy also first in terms of sectoral categories—such as agricultural prices and prices of manufactured articles—and secondly in terms of use categories—such as essential consumption articles, luxury articles and so forth. In fact, policies will have to be formulated for important individual commodities rather than for groups of commodities, no matter how defined. But foi considering prices within the context of an incomes and prices policy, the focus should be on broad shifts in relative prices which are relevant for achieving certain desired results in the distributional pattern of incomes—monetary as well as real.

62. In conceiving of a price policy in terms of sectoral categories, it is essential to bear in mind certain compulsions

involved in the process of rapid economic growth. When the rate of capital formation has to be stepped up sharply, restraint on consumption is necessary and the problems of devising appropriate techniques including price incentives for effecting the desired shifts from consumption to investment becomes more urgent and complex. The impact of a rise in money incomes generated by new investment is severely felt on wage goods principally foodgrains. In a country like India, the demand for foodgrains increases disproportionately with a rise in incomes. If the supply of such wage goods fails to rise commensurately with the rise in money incomes owing to the slow pace of agricultural activity, their prices tend to increase sharply. Once begun, the process of price rise does not remain confined to food prices for long. Since food forms a significant proportion of the expenditure of the wage earners, the wage rates in an expanding industrial sector tend to move up thereby transmitting an initial sectoral imbalance to the general economy in the form of inflationary pressures, which is what seems to have happened in India during the last decade. Shortfalls in agriculture affect the economy, over and above their impact on the prices of foodgrains, through their adverse effect on industrial production, exports and balance of payments. It is in such an economic context that the policy for prices has to be formulated. The discussion of appropriate price policy divides itself into two parts : the policy for prices in the agricultural sector and the policy for prices and profits and other non-wage incomes in the industrial sector. Both of these would have to be an integral part of the overall economic policy directed towards achieving the objective of economic growth.

63. As regards agricultural commodities, the price policy should be so devised as to accord with the needs of a rapid growth of productivity in the agricultural sector. While the prices offered to the producers should be remunerative enough to act as an incentive to them for putting in greater effort and raising investment, care has to be taken to see that the prices charged to the consumers are not unduly high. As regards the price policy for the non-agricultural sector, some difficult problems arise. The profits of the industrial sector provide the sinews of expansion in a growing economy and the rate of profitability of industry, has to be maintained to sustain the growth of the economy. This calls for a price policy which can ensure a reasonable rate of return on investment in industry especially in the form of equity. On the other hand, the price policy for the industrial sector

cannot ignore the unhealthy impact of the growing volume of profits on economic concentration which has far-reaching political and social implications. Thus, both the objectives of growth and equity have to be kept constantly in mind in the formulation of the policy for the non-agricultural sector.

Price-determined Incomes

64. Incomes which accrue by way of profits, dividends and rent are largely determined by the relative prices of inputs and outputs. Consequently, they will vary in accordance with the policies pursued for regulating price increases, both generally and in specific markets. Policies for prevention of inflationary price increases thus constitute necessary instruments for containing these incomes within reasonable limits. Likewise, price and distribution controls applicable to particular commodities or industries may help in curbing undue increases in this type of incomes. Price controls as such are, however, an instrument of limited efficacy in a large, complex and partly unorganised economy and measures for influencing prices in a desired way require considerable scope for manoeuvre as well as a degree of sophistication.

65. Besides the measures for price regulation, it will in some cases, be possible to set certain constraints on these incomes—in the shape, for example, of limitation of the rate of dividends, of rates of interest that could be charged, or of rents. It will, however, be difficult to implement such regulatory measures effectively unless their area is kept within manageable limits. Similarly, a certain measure of surveillance and control can be exercised through bodies like the Monopolies Commission to reduce large concentrations of profits or rents. But, apart from price policy, the most practicable instrument for dealing with high incomes of this sort will be, as mentioned earlier, the effective enforcement of a progressive tax system, supplemented by an adequate system of taxation of capital gains and an expansion of public control over the material means of production.

IX

Organisation and Machinery for Incomes Policy

66. An important aspect of incomes policy concerns the machinery for continuous consideration and review of the policy instruments for the operation and effective implementation of incomes and prices policies. An essential part of the

problem of incomes policy is the question of formulation and adaptation from time to time of guidelines for wages and salaries. The policy should also encompass, even if in a broad way, to start with, incomes in other sectors of the economy principally the various constituents of the preponderant self-employed sector, non-wage incomes, especially profits and rents and urban property incomes and prices which determine importantly the pattern and distribution of incomes generally in the economy. Further, it is of the essence of incomes policy to establish a certain consensus relating to its content and to adapt it in the light of the emerging economic context and social considerations within the framework of planned economic development.

67. The functions of a machinery for incomes policy would comprise : (*i*) organising technical studies of income formation and distribution, trends in productivity and consumption by broad sectors, price trends, relative prices of agricultural and non-agricultural commodities and other intersectoral price variations ; (*ii*) maintaining a watch over developments in various spheres such as wage awards and recommendations and decisions in regard to prices relevant to an incomes policy ; (*iii*) working out the guidelines for incomes policy as well as suggesting instruments for their implementation ; and (*iv*) taking suitable measures towards promoting a better understanding by the different sections of the population of the various issues involved in framing and adopting an incomes policy.

68. To enable these functions to be performed efficiently would require a machinery which not only arranges for a systematic collection and analysis of information on the various aspects of the developments in the economy concerning incomes policy, but which has the requisite stature so that its advice would be given due weight by the various authorities concerned with taking decisions relevant to incomes policy. Such a machinery may be conceived in terms of a two-tier organisation, one of which could work at the expert level while the other would be a body consisting of representatives of the various interests such as employees, employers and the Government who are concerned with the incomes policy and on whom would fall the responsibility of working for the acceptance of an incomes policy by the general public as well as specifically by bodies of employers and employees. The precise composition of such an organisation is a matter for consideration. At the same time arrangements need to be

made immediately for handling the technical part of the work necessary for framing an incomes policy.

69. Some of the studies can be undertaken by the existing agencies such as the National Income Unit of the Central Statistical Organisation, the Department of Economic Affairs, Ministry of Finance, Planning Commission and the Economic and Statistics Departments of the Reserve Bank. However, the important point is that the work done in these organisations should have a definite orientation from the point of view of an incomes policy. For this purpose, it appears necessary that at least a separate cell or a group is set up on a continuing basis from amongst the experts from these organisations with the specific responsibility of arranging for the various studies in their respective organisations and co-ordinating the results.

PART B

I. WAGES POLICY : GENERAL

The Approach We turn now to consider somewhat more closely the factors governing wage determination and the main problems relating to wages policy in the industrial sector, particularly the organised part of it. Changes in the incomes of the group of industrial workers have to be seen not only in terms of the welfare of this group itself but also in relation to the incomes of other functional categories such as profit earners. As our earlier analysis has indicated, it is the primary functional income shares and the changes therein which influence, for good or ill, the process of economic growth. It follows that policies for wages and salaries cannot operate in isolation from policies for other incomes and that there should be requisite co-ordination in the policies covering different types of functional incomes.

2. The guiding principles for an appropriate incomes policy and in particular wages policy are of vital importance from the point of view of the management of the economy. Nor is it easy, particularly in a democratic society, to arrive at generally acceptable principles to determine shares of the factors of production. As a rule, the decisions in this field should be governed, as far as possible, by economic norms and rationale but broad social considerations too have some weight in these decisions, especially in regard to the reward of labour. For, labour is not on a par with other commodities and its price cannot altogether be left to be determined by the impersonal market forces of demand and supply.

3. Wages are an *income* for the wage-earner, and a *cost* to the entrepreneur and employer. Both aspects are important and must be taken into account in the formulation of policy. The considerations for policy flowing from both the aspects are generally consistent with one another upto a point. But beyond a point they are liable to conflict and the problem is how uniformly to evolve a due combination of emphasis on the two aspects which would be conducive to growth as well as to immediate welfare.

4. To take the income aspect first, wages form the income of a social group which though not numerically very

significant—about four per cent of the total working force—represents the most organised and dynamic sector among low-income groups. The scope of wages policy may be taken as applying largely to the incomes of this organised group ; wages in the unorganised sector, including the vast agricultural sector, would then form part of the wider incomes policy.

5. Being the income of an important social group it is axiomatic that wages should continue to increase. The questions are : By what criteria should the increase in wages (as in other incomes) be governed ? What relationship should such increases bear to the rise in national income ? How should the increase in wages be related to increase in incomes of other social groups in the community—in the industrial, trading, services and agricultural sectors ? How far is a *relative* change in the reward of the wage-earning class equitable and economically justifiable, taking due account of the special position and leading role of organised and skilled labour in the development process ? Is the automatic linkage with cost of living in a context of deliberately induced changes in retail prices of consumption goods with heavier indirect taxation, an economically sound and satisfactory arrangement ? Is it desirable and practicable to set a minimum wage through the entire range of industry ? These questions, of course, include an examination of how wages—money and real—have in fact behaved in relation to other components of the national income and the reward of other social classes.

6. Answers to these broad questions which are of the essence of an incomes policy, have to take account, apart from welfare considerations, of the relationship of wages to the rate of capital formation, the cost structure of industry and competitiveness of industrial products at home and abroad and consequently the rate of growth of the industrial sector and the economy. In particular, wage differentials between industries as well as within an industry and their impact on incentive for skill-formation required for growth call for systematic and scientific examination.

7. The study of relationship of wages to productivity generally as well as in specific industries and to some extent even in units within an industry is basic to the economic efficiency aspect of wages. However, wages—a reward for the human factor—are influenced so much by institutional, psychological and other factors that wage increases initiated

by a rise in productivity in one sector permeate to other sectors which have not shared in an increase in productivity ; the competitive or relative aspect of inter-industry wage rates is particularly apt to be overlooked in a welfare state. The difficulties in establishing a link between wages and productivity are, therefore, an aspect of wages policy that requires close examination.

8. Any one of the above considerations cannot by itself claim to govern the wages policy. None of them can, however, be overlooked. In particular, the bearing of wages policy both on incomes policy and prices-policy and *vice versa* should be taken into account.

9. Though our conditions are different in various respects, the experience of other countries in this sphere during a similar phase of development is relevant to the framework of a wages policy. Historically, it is not without significance that in all the industrially advanced countries like the U.S.A., the U.K., West Germany, Japan and Soviet Russia, both the absolute level of per capita real wages and the share of labour in the national product were more or less stable or were declining during their initial period of economic development. It is likely that the pressures that have tended to develop with the democratic and welfare set-up in many states since the mid-twentieth century, were largely absent at the time the now developed states were in their 'take-off' stage of growth, and that this experience could not be repeated. But the fact, nevertheless, retains some relevance in a study of wages policy. For in Soviet Russia, too, real wages of Soviet workers declined sharply and continuously after 1928, when the First Five-Year Plan was launched and it was not until the early nineteen-fifties that they regained their 1928 level. The spectacular rise in real wages of Soviet workers occurred only after 1948 with the substantial reductions in retail prices of foodstuffs. The wage policy in Russia was deliberately directed, as perhaps the absence of a specific policy in some other countries indirectly tended, towards facilitating economic development.

10. The determination of wages in India as in other countries is at present a highly complex process. It takes into account historical wages—in industries, sectors and regions, variation in cost of essential consumption goods, productivity of labour, classification of industry for governmental wage-regulation, etc. In consequence of various

pulls and pressures that have gone into its shaping, the present wage structure for different industries is not amenable to precise description. Wages in general are governed by factors such as the structure of working population, the pattern of income distribution among various functional categories, the level of prices, the development of trade unionism and the social and political ideologies. All these factors and their inter-relation have to be considered in formulating a wages policy. It is not possible, therefore, in the matter of wages policy, to write on a clean slate and overlook the historical, institutional and other factors that have gone into the determination of the wage pattern.

11. In this context, then, the role of wages policy is primarily that of supplying a degree of direction to wages for the future : the above discussion points in general to the importance of giving a larger weightage than has been possible hitherto in the functioning of wages policy to the developmental considerations of fostering productive efficiency through larger investment and capital formation without causing significant inflation.

Evolution of Wages Policy in India

12. Before proceeding to a consideration of some of the guiding principles of wages policy, it would be worthwhile to study the wages policy as it has evolved in India. The Government of India has, for nearly a quarter of a century, been taking an active part in shaping industrial relations and the course of wage determination in the country. While in the early days of Indian industrialisation, the Government had followed a policy of *laissez faire* in the field of labour relations, the Government found it necessary, in course of time, to intervene and create conditions for a peaceful settlement of disputes and protection of certain minimum rights of workers. The appointment of the Royal Commission on Labour in India, 1929, and the passing of the Indian Trade Disputes Act, 1929, were indicative of Government's growing interest in industrial relations. Apart from the Indian Trade Disputes Act, 1929, providing for the setting up of 'Courts of Enquiry' and 'Boards of Conciliation' for the investigation and settlement of industrial disputes, which was hardly used, some Provincial Governments also took statutory powers to intervene in labour disputes and created machinery by which employers and workers could come together under Government auspices for settling disputes.

13. With the Second World War, Government found it necessary to follow a more active labour policy. Rule 81-A

of the Defence of India Rules, enabled the Government to prohibit strikes and lockouts by referring wage disputes to conciliation and arbitration and enforcing the adjudication awards. This provision, which was originally viewed as a temporary measure, came to stay, with the enactment of the Industrial Disputes Act, 1947. Various agencies like Conciliation Officers, Industrial Tribunals, Industrial Courts and National Tribunals, set up by Government thus came to play an active part in the settlement of disputes by arranging for conciliation or in cases where they had the necessary sanctions, by enforcing their decisions on the disputants.

14. In the main, however, until the assumption of office by a National Government, Government's approach to industrial relations remained one of a 'law and order' character. The Interim Government which came into office on the eve of Independence announced in September 1946, a five-year programme of legislative and administrative action in the labour field. The programme included : (*i*) statutory prescription of minimum wages in sweated industries, (*ii*) standardisation of wages and occupational terms in all the major industries and the determination of differentials in wage rates as between various occupations in an industry, and (*iii*) promotion of 'fair wages' agreements wherever possible with due regard to the capacity of the industry to pay. As against the roused expectations of the workers, however, the inflationary rise in prices in the post-war years squeezed their real wages. This led to considerable labour discontent and the year 1947 witnessed a record number of strikes and loss of man-days through labour disputes. In December 1947, an Industrial Truce Resolution was unanimously adopted at a tripartite conference called by the Government. The Resolution stated : "The system of remuneration to capital as well as labour must be so devised that while in the interest of the consumers and primary producers excessive profits should be prevented by suitable measures of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking." The Resolution also recommended the setting up of suitable machinery for the study and determination of fair wages and conditions of labour.

15. The principles of the Industrial Truce Resolution were further emphasised in the Government's Industrial

Policy Statement, 1948, which stated, *inter alia*, their intention (*i*) to fix statutory minimum wages in sweated industries, and (*ii*) to promote fair wage agreements in the more organised industries. In pursuance of the first objective, the Minimum Wages Act, 1948, was passed. It covered agriculture and twelve other sweated industries which were listed and empowered State Governments to expand the list in the light of local conditions. The minimum wages under the Act were to be fixed by Governments on the basis of recommendations of tripartite committees. For implementing the second objective of fair wages, the Government appointed in 1948 a Fair Wages Committee which was "to determine the principles on which fair wages should be based and to suggest the lines on which those principles should be applied." This committee which was a tripartite body consisting of Government representatives, industrialists and labour leaders submitted its report laying down, for the first time, certain criteria for wage fixation and progressive improvement of the wage structure in India.

16. The Committee defined three broad wage concepts, namely, the 'minimum wage', 'living wage' and 'fair wage.' The 'minimum wage' was to provide "not merely for the sustenance of life but for the preservation of the efficiency of the worker. For this purpose, the minimum wage must also provide for some measures of education, medical requirements and amenities." The 'living wage' was defined as an ideal level of wages which would provide "not only for a bare physical subsistence but also for the maintenance of health and decency, a measure of frugal comfort and some insurance against the more important misfortunes." Between these two limits was the fair wage, the floor for which was set by the minimum wage and the ceiling by the capacity of the industry to pay. Its actual determination would be based on: (*i*) the productivity of labour, (*ii*) the prevailing rates of wages in the same or similar occupations in the same or neighbouring localities, (*iii*) the level of national income and its distribution, and (*iv*) the place of the industry in the economy of the country. The Committee recognised that the different wage concepts would change with economic conditions. What was considered as a living wage at a stage of extreme economic under-development might not be considered as even a minimum wage at a later stage when the standard of living of people generally had considerably improved.

17. Apart from the report of the Fair Wages Committee another report which has influenced wage and salary decisions is that of the First Pay Commission, 1946-47, which examined salaries of Central Government employees. The principles enunciated by this Commission have been quoted extensively by various industrial tribunals to sustain their awards.

18. The beginning of the era of planned economic development compelled the Government to pay greater attention to the enunciation of the broad principles which should govern decisions in the main areas of labour policy over and above the detailed implementation of wages policy. A high-level conference of representatives of employers and workers was called in July 1951 for working out the broad approach to a wages policy. The ideas presented at this conference were later incorporated in the First Five-Year Plan.

19. The First Plan stated that subject to reasonable restraints on wages and profits, the main aim of wages policy should be "to restore the pre-war level of real wage, through increased productivity resulting from rationalisation and the renewal or modernisation of plant." Special wage increases were permitted to correct anomalies or where the existing wages were very low. As regards the wage structure, it was recommended that : (*i*) wage adjustments should conform to the broad principles of social policy of reducing disparities in income ; (*ii*) wage claims should be dealt with according to the distance that wages of different categories of workers had to cover before reaching living wages ; (*iii*) the process of standardisation of wage rates should be accelerated and extended to as large a field as possible, and (*iv*) wage differentials should be maintained at a level justified by differences in skill, strain and fatigue involved, training and experience required, responsibility, mental and physical requirements, disagreeableness and attendant hazards.

20. By the beginning of the Second Five-Year Plan, with the increasing pressures on prices and the need to hold down costs, there was a shift in wages policy towards emphasis on productivity. Wage increases involving corresponding increases in productivity alone were deemed desirable. In justification of this shift in emphasis, it was explained in the Second Plan Report that "wages would constitute one of the prime costs and any change in the wage structure was

likely to affect the price level through increase in costs and thus unsettle the plan." The Plan stated that while much remained to be done "especially in matters like covering the distance between the existing wage and the fair wage" progress in this regard could only be gradual.

21. During the Second Plan period the institutional arrangements for the settlement of wage disputes also began to undergo a change. The Plan suggested that the suitable machinery for settling wage questions would be tripartite wage boards consisting of an equal number of representatives of employers and workers and an independent chairman supported by an economist and a consumers' representative. Such a machinery was considered to be desirable since it would give the parties concerned in the wage settlement an active role in arriving at decisions which would cover an entire industry and thereby help to standardise the wage structures in the industries concerned, whereas tribunals and courts could only look into specific issues brought before them by individual units. The presence of independent members would help to safeguard the general interests of the community. Moreover, such a machinery was likely to develop the tradition of consultation and working together on the part of employers and workers.

22. Wage boards have been found to be a useful instrument for bringing wage settlements within the broad framework of the Government's social and economic policies. The terms of reference of these boards have been so designed as to take account of the larger economic and social objectives of the community. In evolving a wage structure, the boards are required to take into account the principles of fair wages as set forth in the Report of the Committee on Fair Wages, the needs of the industry in a developing economy, the requirements of social justice and the need for adjusting wage differentials in such a manner as to provide incentives to workers for advancing their skills. Over the last eight years wage boards have become a dominant institutional instrument for settling wage disputes and they have found favour with the working class. Besides the cotton textile industry, such boards have been set up in jute, plantations, limestone, dolomite, coal and iron ore mines, cement, sugar, iron and steel and engineering industries, heavy chemicals and fertilizers, electricity, leather and road transport and non-journalist staff of newspapers as well as for working journalists and employees

in ports and docks. Second wage boards were set up for cotton, cement and sugar.

23. In a growing economy like India's, continuous improvement in labour productivity has to be striven for. There is a natural tendency for workers to claim for themselves most of the gain in productivity. At the same time, however, it is necessary that the increase in productivity should be harnessed for the growth of the economy. The Third Five-Year Plan therefore emphasised that "in a country where the demands for capital formation are heavy, and will continue to be so for quite some time to come, the workers will have to be content with wage increases smaller than warranted by the increase in productivity." There were also various government policy pronouncements to the effect that the surpluses arising from improved productivity should be looked upon as a social product to which neither the employer nor the worker could lay an exclusive claim and their distribution should be according to their respective contribution, subject to the requirements of development and the general well-being of all sections of society.

24. The wages policy as evolved since Independence had a pronounced impact on the emoluments of labour as well as on production. Industrial production which was adversely affected because of the disturbance of industrial peace improved considerably. Data collected and published regularly by the Labour Bureau, Ministry of Labour and Employment, show a decline in the number of man-days lost as a result of industrial disputes over the years, barring a spurt during the Bombay textile strike in 1950 and recrudescence of industrial unrest in 1958. Further, comparing the first four years of the Third Plan with the corresponding period of the Second, there seems to have occurred, by and large, a distinct improvement in this respect even in recent years.

25. Data on wages are not up-to-date and even for the years for which they are available, there are some serious gaps in coverage. However, despite their limitations, certain broad conclusions relating to wages may be drawn on the basis of the published data. All in all, over the period 1950-60, industrial workers improved their real earnings by nearly 15 per cent. It would appear that average real earnings slightly declined during the first four years of the Third Plan. On the whole, the history of wages during recent years indicates that periods of stable prices have been more

conducive to improvement in the level of real wages than years of rising prices.

26. A major development in the wages field is the recent piece of legislation on bonus. The Bonus Act, 1965, based largely on the recommendations of the Bonus Commission which reported in 1964, is a measure of far-reaching significance. All in all, the provisions of the Bonus Act are designed to confer substantial monetary benefits on the worker. According to a calculation made by the Company Law Board on the basis of information relating to a sample of companies, on the current showing, an additional amount of Rs. 25 crores is likely to be distributed as bonus as a result of the Bonus Act.

27. On the whole, the institutional arrangements evolved over the yeaıs have proved fairly satisfactory. Wherever wage increases have depended on a decision by a statutory body, Government have followed a cautious approach in constituting such authority and the judicial nature of the machinery with scope for appeals by both the parties has promoted a certain stability of wage settlements. Latterly, however, the need for introduction of productivity and other economic considerations more specifically into the criteria for wage determination has been felt.

28. We may now consider the trends in money wages, especially in relation to productivity. There are various sources of data, though of differing degrees of reliability, which throw light on the inter-relationship between wages and productivity. Statistics about wages can be obtained from the Indian Labour Statistics, but the comparable data on labour productivity are not available from the same source. For this one has to turn to souices such as the Census of Manufacturing Industries upto 1958 and its successor, Annual Survey of Industries since then. However, owing to the difference in coverage the data from both these surveys for the different time periods are not strictly comparable. If allowance is made for this and other limitations of the data, some conclusions of a broad nature can be drawn from them. Such data as are available—and these are by no means up-to-date—indicate that the rise in money wages in the organised industry lagged somewhat behind the rise in productivity per unit of labour in that sector. The position may have changed more recently when wage increases have shown a spurt while improvement in productivity is likely to have received a check (Appendix I).

29. The above broad inter-relationship in the trends of wages and productivity does not imply that labour has not been sufficiently rewarded since the rise in productivity per labour unit cannot be attributed solely to the efficiency of labour and was in fact largely due to a sharp increase in capital intensity. Thus the index of fixed capital per unit of labour increased from 100 in 1951 to 121 in 1956 and further to 185 in 1961.* This implies that the rise in the productivity of industry, over and above enabling an improvement in the remuneration of labour has also to subserve investment within industry.

30. The gain in productivity per labour unit in the industrial sector should not be looked at from a narrow viewpoint of only labour or the industry concerned. It has a wider economic connotation touching upon the growth of the entire economy. In the last few years, the rate of growth of money incomes has tended to outstrip the increase in real national product with all its inflationary consequences. The rate of growth of the national product was tardy mainly because of the slower expansion of the major segment of the Indian economy, *i.e.*, agriculture. It is necessary, therefore, to raise productivity per worker in agriculture through increased investment, technological improvements and institutional changes. To finance such investment, saving has to be found not only from the agricultural sector but also from the industrial sector. This would be facilitated if a part of the rise in productivity in the industrial sector is diverted to this purpose.

Some Wage Practices

31. Having thus brought out the need to see the course of wages in the organised industry in relation to the imperative of growth of the whole economy, we may turn to an examination of some important wage practices and see how far they fit in with the policy objectives.

Dearness allowances

32. The practice of compensating wage earners for price increases is a widely accepted and prevalent one in the organised sectors of the Indian economy. This practice which was introduced during the First World War to meet the situation arising from war-time price increases was largely abandoned during the inter-war period of recession. It was revived during the Second World War and has pro-

* Trends in Wages in relation to Trends in Labour Productivity, Cost of Production and Profits, 1951-61 referred to in Appendix I.

gressively grown in importance with the rise of prices. While the details of arrangements in this respect have differed from case to case and courts have given varying awards according to the circumstances of individual cases, certain broad patterns have emerged over the years. According to an *ad hoc* Occupational Wage Survey conducted in 1958-59, 76.5 per cent of workers in factory industries, 61 per cent in plantations and 85 per cent in mines were getting dearness allowance (D.A.). It is expected that nearly 70 per cent of those getting D.A. in factories and mines will now have their D.A. linked to consumer price index. In other cases, there have been practices of granting allowances at a flat rate for all workers or on a graduated scale according to income groups. The extent of neutralisation has varied from case to case and from category to category. In the case of several groups of employees such as the textile workers in Bombay and Ahmedabad, the practice has been to grant almost complete neutralisation to the lowest paid categories, the degree of neutralisation declining progressively for the higher categories. In a situation where 'fair comparisons' are common, the D.A. rates of 'key groups' like the textile workers have served as guidelights for granting regular or *ad hoc* allowances in other industries in the regions concerned. Thus, on the whole, the D.A. element in the workers' wages which was already a significant proportion of the total emoluments at the time of the First Plan, which recommended a partial integration of D.A. with basic wage, seems to have grown even bigger in many cases in the subsequent years.

33. Apart from the question of reintegration of D.A. with basic wage, the problem of a general approach to the impact of rising prices on wages remains. The best solution of the problem, of course, would be to stabilise consumer prices, at least the prices of basic necessities. Since expenditure on food accounts for more than 60 per cent of the family budgets of the vast majority of wage earners, stabilisation of foodgrain prices would be almost ideally desirable. This is, however, a larger issue and we shall refer to certain wider aspects of food prices policy in a subsequent section. While the situation of price increases persists the question of an adequate method of adjusting wages in response to price changes remains. In this connection, protection against the impact of price rises of the wages of the lowest-paid workers which, in most cases, approximate to a subsistence standard, would be undeniably necessary. In regard to better-paid workers, however, the principle of neutralisation of increases

in cost of living through a system of automatic linkage of increases in wages or dearness allowance with price increases requires a careful review. While the system of graduated relief for price increases, the extent of relief diminishing with rise in basic wage, is basically sound, the extent of neutralisation needs to be reconsidered, and the system readapted so as to give greater weightage to the trend of productivity and less to mere price or cost of living variations.

Productivity-geared wages

34. In an economy emerging from decades of stagnation with a large backlog of unemployment, habits of work-spreading and overstaffing tend to be common, hampering the growth of productivity and real incomes. In such a situation incentive wage schemes which would reward higher efforts and efficiency are a useful means for taking the economy to higher levels of efficiency. While data are not available to assess the impact of governmental pronouncements on the actual spread of wage incentive schemes, the Occupational Wage Survey (1958-59) showed that 32 per cent of workers in factory industries, 75 per cent in plantations and 58 per cent in mines were covered by piece-rate or productivity-linked wage schemes. In the case of plantations and mines, the piece-rate system is a traditional one based largely on the very nature of work. In manufacturing industries, cotton, jute and other textile industries where the piece-rate system has been traditionally adopted would account for the bulk of the piece-rated workers. However, in the newer industries, too, partly as a result of governmental pronouncements and partly with the spread of modern management practices which recognise work study and wage incentive schemes as effective tools of management, productivity-linked wage systems would appear to have been spreading.

35. Even apart from their past effects on money wage trends, wage incentive schemes have important future implications in the context of a wage policy for an expanding industrial economy. We referred in Part A to the broad aspects of relating wages to productivity in the economy and the problem which arises in this respect on account of differing rates of growth of productivity in different sectors and units. Now if the practice of productivity-linked wage payment becomes prevalent, money wages in the more efficient units and sectors, which are more prone to adopt such schemes, would tend to rise rapidly. This necessitates the laying down of certain norms to govern wage incentive schemes in individual units or sectors. Such norms may be worked out

on the basis of considerations such as the following : (1) productivity-linked wages are economically and socially desirable and their wider adoption where circumstances are suitable should be encouraged ; (2) the incentive scheme should include a minimum 'fall-back' wage and protect the worker against undue exertion and fatigue ; (3) the introduction of such schemes should be preceded by careful work study ; (4) the portion of productivity increase going to the worker as a producer should be such as to sustain his continued interest in stepping up production; (5) the benefit of productivity increase accruing to the concern should be such as to reward its efforts in improving efficiency ; and (6) the balance of the benefit should accrue to the community in the form of price reduction, improved quality of products and larger foreign exchange earnings.

Participation of workers in ownership and management

36. Apart from the above practices in wage adjustments, recourse to shareholdings in industry may also be a fruitful avenue to explore as a part remuneration for the better off among workers and lower salaried employees. In particular, the increase in the compensation in consequence of higher prices may be paid at least in part in the form of a special category of shares for workers. This would help in curbing inflationary pressures and also give workers a share in the prosperity of the concern.

37. Issuance of shares to employees by way of profit-sharing or bonus payment is not altogether new in India. There have been several recent instances of concerns issuing a part of their capital for their employees in lieu of bonus or wages. The principle underlying this practice is that the shares of these and similar concerns have a market value often much in excess of their face value; these companies need additional resources in the raising of which they try to be considerate to their previous shareholders by offering the new shares at a price below the market value though somewhat higher than the face value, which ensures a good demand for the new right shares ; the method of conferring an advantage on the employees is to reserve a small proportion, often less than 5 per cent, of the new capital issue for their employees. Another method would be to consider issuance of shares on special terms specifically for employees. Since these shares have a premium value in the market, if the employees did not want to retain the shares and desired to cash the benefit immediately, they could dispose of the shares and make a profit. On the other hand, many employees

may continue to retain the shares in view of the obvious advantage of such retention and a new nexus between the company and its employees may gradually be forged. In view of the various advantages, it would be worthwhile to consider recourse to this practice on a wider scale in future so that workers would be induced more and more to accept their wage increase or bonus payments in the form of ownership of shares of the concerns. The extent of concession in the premium price placed on shares issued to employees would be a matter for careful determination. It may also be desirable to stipulate a minimum retention period as a possible condition of allotment of these shares. A possible variant of the practice would be to consider issuance of shares on special terms specifically for employees. A minimum period of permanent employment may be prescribed as condition of eligibility of the employees to receive such specially issued shares and their transfer, except among employees, could also be restricted. The scope for special shares for employees as against a small proportion of the ordinary new shares reserved for them may be considered. On the whole, the suggestion merits the attention of leaders of industry for serious study in the Chambers of Commerce with a view to evolving concrete proposals in this direction adapted to the capital structure and pattern of future capital needs of different units. An effective response is necessary to the situation in our developing economy which demands both development of new devices and techniques for enlarging the flow of savings into industry and a real effort to give some form and substance—albeit our own—to the resolutions to build up a socialist pattern of society.

Direction of General Wages Policy : Summary and Conclusions

38. We may now sum up the foregoing discussion of wages policies and indicate broadly the main elements of policies and practices which might set the direction for the trend of general wages policy in the immediate years ahead.

39. It is clear from the developments in the field of wages and wage policy in the past that the Government has played an active role in shaping industrial relations and the process of wage determination in the country. In course of time the wage policy underwent changes, necessitated mainly by the larger social goals of the Government on the one hand and on the other by the exigencies of planned economic development. Greater emphasis came to be laid on productivity, and wage increases generally not out of proportion with increase in productivity were considered

more desirable. Along with the shift in the wages policy, the institutional machinery for settlement of wage disputes was also revamped. The tripartite wage boards consisting of equal number of representatives of employers and workers and an independent chairman supported by an economist and a consumers' representative were set up. These boards have been found to be—up to a point—useful instruments for bringing wage settlements within the broad framework of the Government's social and economic policies.

40. Two of the important practices used so far for wage adjustment comprised : payment of dearness allowances and linking, to some extent, wage changes to productivity. Of these, the first, *viz.*, the practice of compensating wage and salary adjustments is widely prevalent in the organised sectors of the Indian economy. The dearness allowance is generally adjusted on the basis of changes in the consumer price index numbers ; in certain cases, it is granted at a flat rate for all workers or on a graduated scale according to income groups. By and large, through the method of dearness allowance workers have been able to protect their real wages. Particularly the lowest paid category of workers benefited the most due to the full neutralisation of the impact of prices on their wages.

41. Emphasis on productivity-geared wages is of comparatively recent origin except in old and traditional industries like plantations, mining, jute and cotton textiles. Some of the newer industries also are beginning to adopt these schemes. With a view to rewarding greater effort and efficiency, the Five-Year Plans and the Government's policies have laid particular stress on wage incentive schemes.

42. The experience in regard to wage policies and developments in the field of wages suggest certain broad lines on which wage policies may be re-oriented in the context of planned economic development of the country.

(1) Among other considerations, such as, for instance, productivity per labour unit in concerned industries, the longer-term trend of productivity in the private economy should be a principal guideline in granting wage revisions.

(2) Productivity would be rising at varying rates in different sectors. Employees in those sectors where productivity rises faster than the national average, may have a claim to get increases in wages somewhat higher than the national

average increase in productivity where such higher productivity is primarily attributable to labour ; the higher productivity is often largely related to use of more capital-intensive methods. Correspondingly, wages in the other sectors where productivity rises at less than the national average rate would have to rise at lower rates.

(3) A higher rate of rise in productivity in some industries or sectors should not be fully compensated through a corresponding increase in the rate of rise of wages as it is the groups of workers in these industries who may be expected to contribute to a more stable growth of the economy through use of a part of the higher productivity for greater investment.

(4) Prices of basic necessities should be stabilised as far as possible and less reliance should be placed on systems of compensatory dearness allowances. Smaller emphasis on neutralisation of cost of living increases should be offset by weightage to the trend rate of growth of productivity in the economy. The general effect of such a shift of emphasis should be to moderate wage increases during periods of steep increase in prices and cost of living when productivity is likely to be adversely affected and to allow higher wage increases when the pressure on prices is less and productivity is improving faster with good performance of the agricultural sector of the economy in particular.

(5) All wage decisions including collective bargaining arrangements should be brought within the purview of the Government's general wage policy.

(6) Productivity-linked wage schemes should be governed by certain general norms if these schemes are to secure the social objective of benefiting the community as a whole. The norms should ensure that a part of the benefit arising from increase in productivity should accrue to the community in the shape of lower prices, better quality of products, etc. The wage-incentive schemes should be scientifically formulated and systematically introduced.

(7) A recourse may also be had to shareholding by workers in industries in lieu of wage increases. By so doing, the increased wages may be prevented from being spent on consumption and thus harnessed for raising the saving rate. Such a measure also gives workers a stake in the prosperity of the industries they are employed in.

43. In a democratic system success in implementing a wages policy would depend largely on voluntary acceptance by all the parties concerned of the main elements of such a policy. In keeping with this approach the detailed implementation of policies on the basis of the principles discussed here should be largely a task for tripartite bodies covering the various sectors and industries, their work being coordinated through common terms of reference and guidelines in specific terms enunciated by appropriate agencies of the Government. In Part A we have made a reference to the problem of the machinery and organisation for the purpose of continuous formulation and implementation of incomes and prices policies with particular reference to wage policies.

II

WAGES POLICY IN AGRICULTURE

44. The discussion in this part so far has been concerned primarily with the problem of wages policy in the industrial sector. No discussion of the problem of wages policy can, however, omit to make reference to the question of wages in the main sector of the Indian economy, *i.e.*, agriculture, even if the scope for action to influence wage rates in this sector is much more limited.

45. Income from agriculture constitutes almost 50 per cent of the total national income and the proportion of the total working force employed in this sector is about two-thirds. The total agricultural working force estimated in the 1951 census was around 98 million, which increased to 131 million in 1961. Of this, those with land accounted for 99.5 million, and agricultural labourers 31.5 million. Of course, the whole of this working force is not fully employed ; while a part of it is subject to total unemployment, a sizeable proportion is affected by under-employment. At the beginning of the Fourth Plan rural unemployment is estimated at about 6.75 to 7.5 million (Draft Outline, p. 106). Although because of problems of measurement no estimates of the size of underemployment or what may be alternatively termed as disguised unemployment can be furnished, it is undeniable that the incidence of this phenomenon in agriculture is considerable. Admittedly, the levels and trends of wage incomes in this sectoı and the factors in their determination would have a considerable impact on the development of the economy.

46. However, the policy formulation in regard to agricultural labour, apart from the administrative implications of implementation, has been considerably impeded by the paucity of necessary statistical material. The first serious effort to tackle this issue was made in 1950, when the Planning Commission set up a Committee to advise on the fixation of minimum wages for agricultural workers. This Committee for the first time gathered some statistical data relating to agricultural labour, the proportion of attached and casual labour, modes of payment of wages, wage rates, etc. Its main conclusion was that the problem of minimum wage fixation was regional or areal in character and that distinctions had to be made between States as also between different areas within the same State. It, therefore, urged minimum wage fixation in selected areas and underlined the onerous responsibilities entailed on the administrative machinery in implementing even the bare essentials of the minimum wages legislation.

47. A major step in the direction of collecting data relating to wages, incomes and conditions of agricultural labour was taken when the Ministry of Labour conducted a comprehensive enquiry into agricultural labour for the year 1950-51. This was followed by the second enquiry for the year 1956-57. Both these enquiries covered a wide area of the wage structure of agricultural labour, its incomes, modes of payments and other aspects. However, the results of the two enquiries are not comparable in view of changes in definition. For instance, the definition of the agricultural labour household was not the same in both the enquiries. While an agricultural labour household was identified in the second enquiry on the basis of its deriving a major portion of its income from agricultural labour, in the first enquiry the criterion used was whether the head of the household or 50 per cent or more of its earners reported agricultural labour as their main occupation. There was also difference in methodology used in obtaining information as between the enquiries. However, a technical committee that was set up by the Government to examine the data in the two reports and the allied information came to the conclusion that on the results of the Second Agricultural Labour Enquiry it would not be correct to say that the conditions of agricultural workers had deteriorated between 1950 and 1956. The related data should not be taken as indicating a trend but the conditions of agricultural labour at two points of time.

Main Features of Agrarian Wage Structure

48. The wage structure in the agricultural sector is not always governed by economic forces alone. There are many other factors such as tradition and caste influencing it. This means that any policy aimed at modifying this structure has to consider alteration in these basic institutional and sociological factors. A striking characteristic of the agrarian wage structure is that agricultural wages are not always paid in money and the extent of payment in kind varies according to the type of crop. According to the findings of the Agricultural Labour Enquiry for 1956-57 about half of the man-days worked by casual adult workers is paid for by cash, about 40 per cent in kind and the remaining in terms of both cash and kind. A second characteristic of wages in agriculture related to the nature of employment is that wages are not regularly paid. In agriculture, casual labour forms the bulk of the labour force and is paid wages on a daily basis, while attached workers who have continuity of employment for a period ranging from 3 to 12 months or more are paid generally once in a quarter or half-year. Thirdly, wage differentials in agriculture as between different regions and as between men, women and children are wide. Insofar as payments in kind are concerned, these differentials are not easily apparent, because the composition of kind payments as well as their quantum varies widely and their imputation value too differs on account of regional and commodity-wise differences in price levels. On the other hand, the differentials in wages paid in cash among men and women or between regions are striking. These differences are atleast partly a consequence of sociological factors which impart rigidity to wage levels at both the higher and lower ends. But regional or area differences are largely related to the comparative intensity of agricultural operations *e.g.*, between irrigated and rain-fed tracts. Fourthly, the length of the working day in agriculture is not as clearly fixed as in industry owing to the seasonal character of agricultural operations which entails periods of heavy over-work as well as of enforced idleness with partial employment as the pattern through much of the year.

Operation of Minimum wages Act in Agriculture

49. The first systematic attempt to regulate wages in the agricultural sector was made by the Government of India in 1948 when it passed the Minimum Wages Act. This Act requires the Central and State Governments, as the case may be, to fix minimum rates of wages in scheduled employments which included agriculture within a specified period.

As observed earlier, it was to facilitate the implementation of this Act, that the Committee on Fixation of Minimum Wages for Agricultural Workers was appointed; it was required to indicate the economic consequences of legislation for fixing minimum wages for agricultural workers. In pursuance of the main recommendation of this Committee, the Act was amended extending the time-limit for fixation of minimum wages. The first amendment in respect of agriculture was made in 1951. By this amendment, the State Governments were authorised to fix, by the end of December 1953, minimum rates of wages in agriculture for a part of the State or any class of agricultural workers in the State. The time limit was further extended to the end of December 1954, and it was also provided for a review and revision of minimum rates of wages at intervals not exceeding five years. Since, however, some of the State Governments were not in a position to fix wages even by the extended date in respect of certain employments, a further extension was granted. In order to maintain some flexibility in the application of this Act, in the context of differing conditions in various States, the time-limit earlier stipulated for the fixation of minimum wages was dispensed with, through the amendment of the Act in 1961.

50. The Minimum Wages Act 1948 provides for the fixation of minimum rates of wages for time-work as well as piece-work in respect of agricultural employments. Minimum rates of wages are required to be fixed by the hour, day or month or by longer period as may be prescribed. This legislation is also intended to regulate certain basic conditions of work and employment such as hours of work, overtime wages, etc. The rates of minimum wages for agricultural workers have been fixed by all the State Governments, either for a part or the whole of the State/Union Territory. Except Madras, Gujarat and Maharashtra, in all the States and the Union Territories of Delhi, Himachal Pradesh and Tripura, the Act has been implemented in the entire State. In many States the wages initially fixed have been revised.

51. In laying down the minimum rates of wages, various factors such as the prevailing wage rates and other conditions of service in the area and in adjacent areas in similar categories of employment, the cost of living level and trends, norms laid down by the Indian Labour Conference at its 15th Session, paying capacity of an industry and minimum rates of wages fixed for the same industry in other States,

were taken into account*. It cannot be said, however, that all these factors were adopted uniformly by all States which fixed minimum wages.

52. The implementation of the Minimum Wages Act has come up against a number of difficulties. These include the small and scattered nature of agricultural farms, the poverty, illiteracy and ignorance of the workers about provisions of the Act, absence of a strong workers' organisation, poor means of communication and transport facilities, lack of education of the cultivator-employers, non-enforcement of the provisions of the law, etc. This situation was in fact fully anticipated by the Committee on Fixation of Minimum Wages for Agricultural Workers.

53. Despite these difficulties in implementing the Minimum Wages Act, however, the legislation has had a favourable impact on the wage rates of agricultural labour in various States. According to the Quick Wage Surveys for Agricultural Workers made during the period 1959-64, it is observed that the prevailing wage rates were generally higher than the rates of wages fixed under the Minimum Wages Act in all the States/Union Territories except Bihar, Kerala, Madras, Mysore, Rajasthan and West Bengal. In U.P., these rates were found to be equal to the minimum wages fixed under the Act.

A Policy for Agricultural Labour

54. The predominant obstacle to the implementation of any wages policy in agriculture is the low productivity of this sector in general and the unorganised character of agricultural labour. This implies that any substantial and lasting improvement of the wages of agricultural labour is possible only with measures of far-reaching reform and reorganisation of the agricultural sector. In the nature of things, this would take a long time. The Committee on Fixation of Minimum Wages emphasised this aspect when it stated that "substantial improvement in the position and prospects of agricultural labour can only be brought about (*a*) as part of a balanced and rapid economic development of the country especially of the rural economy and (*b*) by restriction of the rate at which population is growing. This measure (*viz.* fixation of minimum wages) by itself cannot achieve much and its efficacy from the social standpoint would depend upon the

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* All-India Seminar on Agricultural Labour, New Delhi, 2nd—4th August 1965, Pp. 223-224.

extent to which the whole economy can be placed on a sound and progressive basis." When this is achieved, the labour productivity in agriculture would be considerably improved and consequently the wages of the agricultural labour and its standard of living would go up. Better farming methods and education of the farmer in modern agricultural skills may help in this direction. Both these imply large investment programmes in the agricultural sector.

55. Improvement of wages of agricultural labour that may be effected through minimum wages legislation or other wages policies is only one method of bettering incomes and living conditions in agriculture. In the Indian agricultural sector, there are numerous self-employed farmers, with their incomes more in the nature of wages than profits, which are governed largely by the prices of the agricultural produce. The agricultural wages problem thus merges with the problem of agricultural price policy. This aspect has been discussed in Section IV.

56. Apart from this, a wages policy by itself is not enough to effect a decisive improvement in the conditions of a large mass of the agricultural labour. The existing level of wages is low largely because of the excessive pressure of population on the land. The excess population can be transferred to non-agricultural occupations only as a result of rapid economic development. The other alternative of enlarging the wage incomes of this section by providing additional employment in the rural areas itself must also be an integral part of the development programme. The Rural Works Programme initiated during the Third Plan stemmed from this consideration. The Programme Evaluation Organisation which examined the implementation of this programme has, however, pointed out various deficiencies like absence of proper planning and inappropriate choice of projects. This is, therefore, an aspect of planning to which increasing importance needs to be attached. Emphasis should be placed on projects like soil conservation works which have a salutary impact on land productivity over and above employment, and development of non-agricultural programmes in the rural areas, *e.g.*, through promotion of small-scale industries, road construction, improvement of public utilities and the facilities for infra-structure of development. In this sense, the improvement of wages and conditions of labour in the rural sector is an aspect of planning for economic growth of the country and the scope for increasing agricultural wages or

the standard of living of the agricultural labour through legislation or direct executive action by Government is a limited one.

57. The wages policy for agriculture must remain a positive one, *viz.*, of securing improvement in wages and conditions of labour and a relative improvement in the incomes of the poorer agricultural classes. In industry, on the other hand, labour is better organised, productivity is increasing rapidly and methods of securing for labour a share in the gains of productivity have been built into the wages structure. This contrast derives from the fact that, unlike industry, agriculture, with its conditions of excessive population pressure and generally low productivity, represents a vast backward, even depressed, area in the field of wages, meriting special therapeutic treatment. Industry, too, has its special problem areas where the conditions of labour are unusually poor and which warrant special measures for their improvement. Apart from certain regions which are particularly backward, the area of depressed labour conditions in industry lies most importantly of all in the field of small-scale industry. Conditions here are, however, more akin to those of agriculture both with regard to diagnosis of the problem and with regard to the lines of treatment. An improvement in education and training facilities and a large increase in investment rather than statutory minima provide the only effective solutions to the problem of industrial labour in this sector as for agricultural labour.

III

POLICY FOR SALARIES

58. The salaried class is a heterogeneous one comprising persons employed in various administrative and clerical jobs and those employed in professional capacities in business, universities and the Government. Within this group, however, incomes vary over a wide range. At the lower end of the scale, the bulk of the salary earners get rewards comparable with those of manual workers, while at the higher end a relatively few command returns equivalent to those of entrepreneurs and independent professionals with specialised skills. In a sense, this latter type of the salariat resembles closely the business and independent professional classes, and as such its incomes are governed generally by similar considerations.

59. Salaried personnel in the country can be classified into two broad groups : those in Government employ-

ment either at the Centre or in the States or under local authorities and those in private employment. While there are adequate data about the trends in salaries in Government employment over the years, there is no comparable information about salaries in the private sector. 'The Commission of Enquiry on emoluments and conditions of service of Central Government employees' (1957-59) (the Second Pay Commission) made an attempt to trace the evolution of salaries in the two sectors on the basis of the available data. According to its findings, in the Government sector the differential between the higher and the lower ranges of salaries had narrowed perceptibly over the years, whereas in the private sector it had moved in the opposite direction. Comparing the *starting* remuneration admissible to the highest and lowest paid jobs in Central Government service in 1939-40, 1947-48, 1949-50, 1951-52 and 1957-58, it could be seen that the salary ratio (post-tax) between the highest paid and the lowest paid in Government service had come down sharply over the years. In 1939-40, the highest paid Government servant started on a remuneration 43.4 times more than that of the lowest paid employee ; in 1947-48 the highest starting salary was only 6.9 times the lowest ; and the ratio had progressively narrowed down to 5.1 times by 1957-58. The ratio has been reduced still further, and it was only 4.2 times in 1966-67.

60. A comparison between the *maximum* remuneration of the highest and the lowest grades of Central Government employees over the same period also shows a similar narrowing of the differentials. The maximum *post-tax* remuneration of the highest paid Central Government officer was 329 times the maximum for the lowest grade employee in 1939-40 ; this ratio was reduced to 46 times in 1947-48 ; and it came down progressively thereafter to 34 times by 1957-58 ; on the basis of the salary scale recommendations of the First Pay Commission (Varadachariar Commission) (1947), the ratios were still lower. Following the recommendations of the Second Pay Commission (1957-59), the disparity both at the starting and the maximum levels was further reduced ; and the ratio at the maximum levels became 1 : 24.* In

* Refer Report of the Second Pay Commission (1957-59), p. 80. It may be noted that the above scales and changes do not cover about 200 public offices like those of the higher judiciary etc. whose emoluments are laid down in the Constitution itself. The lowest salary in this group is Rs. 3,500 payable to Judges of High Courts.

1966-67, the ratio had come down to 1 : 18. This progressive reduction in differentials in Governmental salaries has been brought about, in the main, by the effects of increased taxation of the higher incomes, progressive increases in the dearness allowance of the lower paid staff and a deliberate policy of holding down remuneration in the higher rungs. The same factors seem to have brought about a similar reduction of disparities in the intermediate ranges of Government salaries.

61. Turning to the private sector the information compiled by the Second Pay Commission indicated that salary differentials in this sector had widened between 1948-49 and 1956-57 in contrast to the differential in the public sector (Appendix II). Latterly, the Company Law Department which exercises a measure of control over emoluments of the higher executives of companies has in effect imposed a ceiling of Rs. 1,20,000 to Rs. 1,50,000 per annum for the remuneration including perquisites of new company officials. Income-tax statistics also suggest that no further widening of disparities in salaries in the private sector may have occurred in recent years.

62. As regards the clerical and allied categories of salaried personnel, the problems relating to adjustments in their pay and conditions of service are, in many ways, similar to those which arise in the determination of wages and conditions of service of manual workers. This has been well recognised so far as the organised sectors of trade and industry are concerned where all employees having a monthly pay of Rs. 500 or less are entitled to similar benefits as regards dearness allowance, bonus, etc., irrespective of whether they work on a machine or in an office. In the matter of wage fixation and revision also, clerical and allied categories are entitled to the use of the same type of machinery of adjudication etc., as manual workers. While the aim of policy, in fact, should be to evolve a structure of pay with rising real incomes for all the low-income groups of manual and clerical workers, it is nevertheless a valid principle that in periods of exceptional price increases, the real incomes of relatively better paid clerical and allied workers may not be protected against the incidence of price increases to the same extent as those of the lowest paid manual workers. This is fully in conformity with the principle of distributing the sacrifice necessitated by rise in prices through a progressively smaller degree of compensation for workers with higher incomes so

as to enforce the needed restraint on consumption. However, the effects of such adjustments for changes in cost of living on the relative evolution of wages and salaries would have to be kept in view. The process of narrowing of differentials could not with advantage be carried so far as to discourage the acquisition of needed skills and training.

63. It is necessary to improve the productivity of clerical labour through appropriate educational standards and training programmes and to redeploy this labour into more productive types of jobs. Government as a large employer of white collar labour has a special responsibility in this respect.

64. In an economy with restricted spread of educational and other opportunities, partly arising from social and economic stratification, the people in the various jobs may constitute 'non-competing' or 'semi-competing' groups. Salary differentials in such cases may be wide and in the higher ranges of some jobs, the rewards may contain a large non-functional element which is in the nature of 'pure rent'. The tasks of policy under such circumstances are : (1) to break down the barriers to entry into the higher paid jobs ; (2) to ensure that appointments to higher jobs are made more on the basis of competence for work than on family or caste ties ; (3) to relate pay to objective criteria ; and (4) to reduce excessive differentials through fiscal measures. The extension of educational opportunities would be the single most important measure in eliminating the 'rent' or non-functional element in rewards, for it would reduce the relative shortages of people with requisite skills and training. As regards artificial barriers to entry there are already provisions in the law under the Companies Act, 1956, and the Banking Regulation Act, 1949, which regulate appointments to places of profit and managerial staff of companies as well as the remuneration attached to such appointments. Moreover, the present provisions relating to taxation of company profits are such as to put an indirect limit on perquisites allowed to top executives of companies. Finally, progressive taxation of incomes has helped to reduce fairly drastically the post-tax incomes of the higher salaried and entrepreneurial classes.

65. Particularly in the Government sector, partly as a result of the working of long-term economic forces and partly as a result of deliberate policy measures, the differentials in salaries have been progressively reduced. While this cannot

be said of the private sector, it should be noted, on the other hand, that the increase in the number of persons in the high salary ranges in the private sector reflects, in the main, the considerable development in the organised industrial and commercial sector in the wake of fairly rapid growth of the economy with its demands for high-grade skills, both technical and administrative.

66. There remains to be considered the problem of relative salaries in the Government and private sectors of the economy. It is of course true that attractions of service in the public sector are not always wholly pecuniary. Various non-monetary and rather intangible rewards of the service of the State, particularly in the higher cadres, such as a sense of sharing in the shaping of important policies, of serving not an individual or group but the public, of security and of partaking of the prestige traditionally attached to the Government service have helped to attract persons of calibre to the higher Government posts even in competition with the glittering monetary rewards offered in private employment. However, the private sector has been assigned an important role in the country's development and its functionaries now share to an increasing extent in some of these intangible rewards. On the whole, the existence of wide disparities in the economic conditions of persons of equal calibre and discharging similar functions poses a real problem with regard to the efficient functioning of the public sector. While on the one hand, it is being attempted, through regulatory powers of the Company Law Department to ensure that rewards in the private sector do not get unduly out of line with those in public employment, the problem of rationalisation of the salary structures in both public and private employment has to be viewed against the background of increasing stress of technological developments and the emergence of a growing business sector in Government, which also requires persons of similar managerial and technological competence as the large corporations in the private sector. Also, the progressive erosion of the real worth of the salaries of public servants over the years of planned development which have been a period of sustained price increases, has contributed to bringing this problem increasingly to the fore.

67. The main problem for consideration is whether this situation can be met by additional restrictions on the terms of employment in the private sector. To some extent, more adequate publicity of scales of remuneration and benefits

which are grossly out of line with current standards would serve to bring the influence of public opinion as well as shareholders' views to bear on these incomes and may have a moderating effect on such incomes. But the main reliance would have to be, by and large, on fiscal policy devised in such a way that it can reduce income disparities without thwarting incentive for effort. There is perhaps little room for more stringent application of direct restriction through Governmental regulation, particularly at a time when the old system of managing agencies is being replaced by competent high-powered executives and managers who are expected to exercise considerable responsibility for promotion of enterprises.

IV

POLICY FOR PRICES AND NON-WAGE INCOMES

68. As observed earlier, the inflationary movement which has emerged in India since 1956, is a combination of a demand-generated inflation of food prices and a cost-generated inflation of industrial prices. It has been induced primarily by the acceleration in the rate of investment in a context of disparate growth in the agricultural and non-agricultural sectors. Against this background, an adequate price policy for development must be geared to the requirement of raising productivity and production in the agricultural sector and of regulating profits and other types of non-wage incomes in the industrial sector in such a way that an adequate flow of savings for rapid growth is assured. Some of the considerations relevant to the price policy ancillary to a policy for incomes are discussed in this Section.

Agricultural Price Policy

69. The record of price movements in India indicates that the general price level hinges to a large extent on the prices of agricultural products and particularly of foodgrains. This is only natural in a country with a large agricultural sector and low consumption standards, where for the majority of the population expenditure on food accounts for over 60 per cent of the family budget. During the last few years the trends in foodgrains prices have reflected a level of demand rising above that of available supplies. With a population increasing at the rate of 2.5 per cent and money incomes growing in per capita terms at 1 to 1.5 per cent, there has been a continuous increase in the demand for foodgrains. However, owing to various constraints such as inadequate irriga-

tion facilities, insufficient supply of inputs like fertilisers, improved seeds and tools and an inordinately slow pace of institutional changes, food production has not kept pace with the increasing demand with resulting excessive dependence on imported food supplies.

70. This general failure of food production to grow at a steady and rising rate has also been due, in part, to a lack of appropriate price policy for foodgrains. During periods in the past when supplies tended to be in excess of demand, even if moderately, either through bumper crops or through heavy imports, prices of foodgrains were allowed to fall somewhat disproportionately. Though foodgrain prices have been on an upward trend for many years, price declines in areas of substantial surplus output have occurred from time to time. The absence of a system of support prices and State purchases attuned to the levels of domestic output in relation to demand has acted as a disincentive to investment and production for foodgrains producers. It is true that despite large imports the prices of foodgrains in general have been rising continuously and, owing to continued shortage of supplies, the level of these prices remains considerably high. But the benefits of the rise in prices have not always accrued, in full measure, to the producers. A sizeable part of the profits of this phenomenon has accrued to the trading class which has little stake in raising productivity in agriculture. What seems to be necessary, therefore, is a properly worked out system of remunerative prices for the producers of foodgrains and other agricultural crops which takes due account of the agricultural cycle.

71. In contrast to foodgrains, producers of non-foodgrains or commercial crops, on the other hand, have been in a better position in terms of price policy. For instance, floor and ceiling prices for cotton have been in vogue since 1943-44, though for sometime now the system of control of cotton prices has fallen largely out of gear and has been in need of major modification. In the case of jute, support price is ensured through the fixation of an operational minimum price. Similarly for sugarcane, minimum prices for sugarcane to be paid by sugarcane factories have been in operation since 1949-50. In the case of oilseeds, prices are sought to be regulated through control over forward trading. Apart from a structure of assured prices, however, in respect of commercial crops there is the important factor of an increasing demand for the output of such commodities from industries

resulting from a general rise in consumption standards. All in all, the price situation for these crops has been such as to promote investment by the producers with a view to increased production of such crops. However, in the absence of a co-ordinated machinery within Government for continuous adaptation of the various controls, administered somewhat out of relationship with one another, the price policy towards agricultural commodities in recent years, has not, on the whole, achieved the desired objective.

72. While suitable adjustments in agricultural price policy would have a beneficial impact on the growth of the agricultural sector in general and foodgrains production in particular, what is required for a real break-through in the agricultural sector is a bold programme of investment in that sector which improves its efficiency in general. Most agricultural products are end-products for consumption or export or are essential raw materials for industry. To raise the prices of agricultural commodities, therefore, would not by itself solve the problems of adequate agricultural supplies, inflation and general stagnation in Indian exports. In the ultimate analysis, investment in the agricultural sector together with the needed institutional and technological changes should be the main instrument to raise the productivity of Indian agriculture.

Policy for foodgrains

73. The slow growth in the supply of foodgrains in the context of developmental programmes, as noted earlier, has exerted a considerable upward pressure on food prices. Since any shortage, even of a marginal nature of an essential item like foodgrains, encourages hoarding of the commodity at every stage—by the grower, the trader and the consumer—the shortage and the price effect get magnified. When shortages are persistent and no correctives to tendencies for hoarding and rising prices are at work, an explosive price situation builds itself up. To avoid such a situation, it is necessary to evolve a system which would ensure the maintenance of orderly lines of supply. However, with agricultural production still largely dependent on the vagaries of the weather, seasonal, regional and cyclical variations in production and supplies are marked in the very nature of the agricultural operation and with widely varying climatic conditions over sprawling areas of a large country. The supply system would thus have to be one which would bring about an efficient distribution of the available supplies among different areas and over time. This apart, since incomes and the incidence

of increases in foodgrains prices differ between different sections of the community, the policy should be such as may ensure supplies, at moderate prices, especially to the vulnerable sections among the population who are dependent on market purchases for food, while enabling the farmer at the same time to get the benefit of a higher price from the relatively better off classes. This argues for a framework of policy which combines guaranteed support prices, buffer stock operations and adequate and effective distributional arrangements.

74. The problem of food policy has been the Achilles' heel of the Indian economy. It has been considered by a series of Committees over more than four decades. The contours of the problem and the lines of its treatment have emerged in sharp relief over recent years. The machinery for dealing with various aspects of the problem has also, latterly, been taking some shape, with the setting up in 1965 of the Agricultural Prices Commission as a body to devise a long-term policy in respect of prices of foodgrains and other agricultural commodities in the perspective of planned economic development and the simultaneous creation of a Food Corporation of India to implement Governmental policies in regard to prices and distribution of foodgrains. The latest development in regard to further evolution of the long-term food policy has been the appointment of another Foodgrains Policy Committee early in 1966 by the Government of India. This Committee was asked to examine all the aspects of food policy, namely, procurement, distribution, movement and prices and to make recommendations for "modifications in the existing arrangements and systems for bringing about an equitable distribution of foodgrains at reasonable prices between different regions and sections of the country." The Committee has recommended a national plan of supply and distribution in the form of a national food budget. The means of implementing this plan would be four-fold, namely: (*i*) procurement to ensure necessary supplies; (*ii*) control over inter-State movement to facilitate procurement and keep prices at a reasonable level; (*iii*) a system of public distribution to ensure equitable sharing; and (*iv*) the building up of buffer stocks to provide against difficult years. This national food budget is to be formulated at the commencement of the procurement season in the light of the available information regarding crop prospects. It envisages certain basic quotas of procurement fixed for the surplus States but deficit States too will have an obligation of making the most of their re-

sources before making a demand on the central pool of food resources. The Government has taken a decision to construct a national food budget in the implementation of one of the above recommendations. While the Committee's recommendations are useful for finding a short-term solution to the problem of distributive arrangements in a situation of scarcity, the real long-term solution to the problem consists in a marked step-up in agricultural production and productivity. What is essential, therefore, is a proper integration of the long-term policy of agricultural production and investment with the short-term policies of distribution and procurement in a wider context of planning for plenty.

Policy for Non-agricultural prices and profits and other non-wage incomes

75. Formulation of a price policy for the non-agricultural sector which means largely the industrial sector poses some complicated problems. It is a heterogeneous sector turning out consumer, intermediate and capital goods. The dependence on imported raw materials of different parts of the sector varies considerably. Also, their interests in terms of price policy though essentially consistent often diverge. Thus, to the extent that the pressure on prices of industrial goods emanates from the prices of agricultural goods through their impact on wage costs or cost of raw materials from agriculture, a solution to the problem of price policy for the industrial sector merges with that for agricultural prices, though the interests of the agricultural and industrial sectors, viewed in the short-term, appear to conflict. Again, the impact of changes in prices of some manufactures such as capital goods or intermediate products on consumer articles has to be taken into account. For instance, if prices of coal or electricity rise, the cost-structure of industries dependent on them and in the result the entire cost-price structure of the industrial sector may also rise ; however, prices of these intermediate goods have to be considered in terms of their respective costs and profit margins as well. Further, the profits of the industrial sector provide the sinews of expansion in a growing economy and the rate of profitability of industry has to be maintained to sustain the growth of the economy. In this context, a renewed flow of fresh savings to finance the expanding industrial sector remains a desideratum. For attracting such savings particularly from the household sector, it is important to ensure a reasonable rate of return on investments by this sector in industry, especially in the form of equity. This in turn assumes maintenance and steady improvement of share prices. A policy for dividends has on the one hand to ensure a steady and reasonable return to

the investor and on the other to keep the reward for capital not out of step with the remuneration for labour. Rental incomes, too, require to be observed with a view to eliminating the exceptional gains of inordinate control of scarce land resources in the vicinity of rising industrial communities and urban formations. This may be achieved through State interception to the extent practicable of the appreciation of urban real estate by means of urban land development as a major State enterprise. All these elements have to be considered in evolving a price-policy for the manufacturing sector in its wider sense as encompassing both the prices of manufactured articles and the profits or return on capital or on real estate and other scarce factors of production.

Trends in salaries and wages and gross profits of the non-financial corporate sector

76. It may be useful at this stage to analyse the problem of rise in the prices of non-agricultural products by ascertaining the relationship to such price changes of increase in wages and salaries on the one hand and demand pressures on the other. This analysis may be based on a study of the trends in salaries and wages and gross profits and their relative proportions in the value added or net output of the private non-financial corporate sector over the planning period.

77. Tables A and B appended to this section present indices of industrial production and profitability, prices of industrial raw materials and manufactures, value added at current and constant prices, salaries and wages, gross profits etc., for the period 1951-52 to 1964-65. Statistics pertaining to the relative shares of gross profits and salaries and wages in the net value added in the corporate sector given in Table A generally suggest that the changes in prices were largely governed by the pressure of demand generated in the Indian economy as a result of rising investment expenditure. In some years the prices of manufactures also rose owing to the rise in the costs of production associated with the increase in raw material prices and, to some extent, in salaries and wages.

Fair Return

78. Price regulation in the industrial sector has been applied over a fairly substantial part though its effect has been marginal. The main consideration in such price regulation has pertained to allowing a fair rate of return to industry on the one hand and preventing excessive profits through unduly high prices for goods in short supply on the other. There have been statutory as well as non-statutory types of price

controls. The statutory controls fall into three principal categories: (*a*) those under Defence of India Rules, *e.g.*, on sugar and kerosene; (*b*) those under Essential Commodities Act, *e.g.* on coal and coke, woollen hosiery yarn and articles, worsted weaving and hand knitting yarn, iron and steel, raw cotton, fertilisers, cotton yarn and textiles ; and (*c*) those under Industries (Development and Regulation) Act, *e.g.* ethyl alcohol and molasses. The principal commodities covered by non-statutory arrangements are : paper, motor vehicles, petroleum and petroleum products, matches and bicycles.

79. In addition to such controls governing industries with units mostly in the private sector, Government has control over the prices of public utilities like electricity and transport, mostly in the public sector, as well as over the products of a number of other public sector industrial undertakings. Prices of electricity and transport services supplied by State Government undertakings are fixed by the State Governments concerned in terms of relevant rules. Guidelines for the pricing policies of public sector industrial undertakings are laid down by the Ministries concerned, in cases where they have not been referred to the Tariff Commission or to other special bodies. In general, the emphasis has been on cost reductions and suitable pricing practices in such undertakings, so as to earn an adequate rate of return on the investments, the target suggested in this regard being about 12 per cent on capital employed for a mature project. The work of co-ordinating the implementation of these policies for public sector projects has been assigned to the Co-ordination Department (Ministry of Finance), under which a Special Bureau on Public Enterprises has been set up.

80. Determination of a fair rate of return on capital depends on the definition of 'capital' as well as on judgement of what constitutes a fair or appropriate return in the context of the stage of economic development at a time. The Committee on Profit-sharing in 1948 and the various Labour Appellate Tribunals generally adhered to a 'narrower' definition of capital comprising paid-up capital and reserves which were held for purposes of business or used as working capital and were created out of profits on which taxes were paid (but excluding depreciation reserves). The price-fixing authorities like the Tariff Commission usually followed a 'wider' concept of capital—the sum by the employment of which profits are earned—and included therein the gross block plus working capital between 1924 to 1952 and

thereafter net block i.e., gross block minus depreciation plus working capital. The Oil Price Enquiry Committee, 1961 defined capital employed as the sum of net fixed assets and current assets minus current liabilities. If the narrower concept of capital, viz. capital plus reserves is followed, the computation is relatively simple. The wider concept of capital employed, however, raises various difficulties in arriving at the capital base. Some of the problems are: should the valuation of fixed assets be based on original cost or depreciated cost or current replacement value; whether capital work-in-progress should be included under fixed assets; if fixed assets at depreciated cost are taken, how the depreciation should be computed; what items should be covered under current assets and current liabilities; how intangible assets like goodwill may be treated etc. Further, under both concepts the problem remains whether the capital at the commencement or the end of the accounting period or at an average of the two should be taken for working out the rate of return. For comparing the performance of various concerns in the same industry as well as inter-industrial comparisons, from the point of view of entrepreneurs, it is the wider concept of capital that would be more relevant; from the investor's point of view, the narrower definition of capital is more significant. Thus, the computation of the capital employed would differ according to the purpose for which it is made and an all-purpose definition will not be appropriate.

81. Given the definition of capital, some objective criteria are required to determine the appropriate level of the return. This problem arises directly in industries the prices of whose products are or are to be controlled. Price control serves a certain purpose in basic industries where production cannot be increased in a short time and where in face of the pressing excess demand free operation of market forces is liable to make a drastic change in the cost structure of various industries. Any attempt to lay down the norms of fair rate of return would have to take into account the nature of industry, its importance in development activity, and the expectations of the capital market. The Committee on Profit-Sharing in 1948 recommended a 6 per cent return on the paid-up equity capital and free reserves. Between 1948 and 1951 the Tariff Board usually allowed a fixed return of 8 per cent on gross block together with 3 to 4½ per cent interest on working capital. In 1955 when the concept of capital employed (net block plus working capital)

was introduced a 10 per cent return was deemed fair; since then the rate has varied between 10 per cent and 14 per cent. The Tariff Commission in one of its reports in 1955 considered that a tax-free dividend of 10 per cent on ordinary shares should be fair. In the case of the cement industry it recommended differential rates of return for low cost and high cost enterprises. The Oil Price Enquiry Committee, fixed a 12 per cent return on capital employed. The Labour Appellate Tribunals recognised the need for attracting a steady flow of investment to industry and granted 6 per cent return on paid-up capital and not more than 2 per cent on reserves. The Bonus Commission, 1964, recommended 7 per cent on paid-up capital, actual dividend on preference shares and 4 per cent on reserves used as working capital. The Government in its Bonus Ordinance issued in May 1965 modified the rates for equity shares to 8.5 per cent (taxable) and for reserves to 6 per cent (taxable).

82. As regards public sector enterprises, the Draft Fourth Plan mentions that a return of 12 per cent on invested capital would be appropriate. Given a standard for fair return for industy in general the rate may vary with the needs of the particular industry on account of factors such as risks involved, need for expenditure on research and development, priority for defence or exports etc., though it is difficult to make precise allowance for the variety of conditions. It would also be necessary to adjust the rate from time to time.

83. The above discussion of the basis on which the return to industry is regulated or the framework within which price control is operated bypasses the central issue of the scope for price control as an instrument of economic policy in the context of our developing economy. In general, this scope is a rather limited one owing to the enormous administrative implications of interference with the market mechanism except in carefully defined conditions, including temporary situations, with regard to the need for regulated supply of a basic product or products to essential consumers or users or of a crucial commodity or article in extreme short supply for a time or in other specified circumstances. There is need, in particular, for constant vigilance over the operation of price controls with a view to rigorous assessment of their performance and results in relation to the objectives and purposes of such controls.

84. The essential objective of a price policy ancillary to an adequate incomes policy is to influence price trends—

general, sectoral, regional and seasonal—in such a way as to promote economic growth and balance, to stimulate production, restrain consumption and maximise savings, and to avoid accentuation of economic inequality through excessive profits and concentration of wealth and greater income disparities. These are wide objectives for an instrument of apparently limited potentialities and scope particularly in the Indian context. But the contribution of price policy in supporting an incomes structure in the economy conducive to development as well as stability can be improved if a non-inflationary environment is sustained by the general economic policies and the scope for influencing *relative* prices—where price policy has its peculiar efficacy—is maintained. For creation and maintenance of this basic climate for the successful operation of price policy, fiscal and monetary instruments rather than direct economic controls as such are the more effective ancillaries.

TABLE A—INDICES OF PRODUCTION, PRICES, WAGES AND PROFITS AND RELATED DATA

Year	Industrial production[1]	Whole Sale Prices[2]			Value added or net output at current prices	Value added or net output at constant prices	Salaries and Wages	Profits before tax[3]	Share of		Profits before tax[3] as percentage of sales	Profits before tax[3] as percentage of total capital employed	Percentage of profits after tax[4] to net worth
		Food Grains†	Industrial raw materials	Manufactures					Salaries and wages in net output	Profits before tax[3] in net output			
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
1951-52	100·0	100	100·0	100·0	100·0	100·0	100·0	100·0	69	31	9·7	10·7	9·6
1952-53	103·1	98	70·7	83·8	91·5	109·2	103·6	71·5	78	22	7·2	7·6	5·7
1953-54	105·9	94	77·5	82·9	98·6	118·9	107·6	80·5	75	25	8·8	8·4	6·8
1954-55	113·1	75	72·0	84·3	106·6	126·5	111·2	94·1	72	28	10·6	9·1	7·8
1955-56	125·0	72	70·0	83·5	125·0	149·7	119·4	120·1	66	34	9·2	10·2	9·0
1956-57	136·1	92	82·0	89·1	138·3	155·2	133·9	130·9	67	33	9·8	9·5	8·8
1957-58	141·8	96	82·3	90·6	137·9	152·2	143·5	115·6	72	28	8·0	7·5	6·5
1958-59	146·5	105	81·7	90·8	148·0	163·0	150·4	130·8	70	30	8·5	8·0	7·2
1959-60	159·0	100	87·4	93·6	169·6	181·2	163·2	167·8	66	34	10·0	9·8	10·5 (8·6)
1960-61	177·0	100	102·8	103·8	206·9	199·3	192·5	213·0	64	36	10·3	10·2	10·9 (8·9)
1961-62	188·2	99	100·8	106·1	222·7	210·0	207·4	230·3	64	36	10·1	10·1	10·0 (8·0)
1962-63	204·9	104	96·5	107·9	242·9	225·1	225·9	252·5	64	36	10·1	10·1	8·6 (6·9)
1963-64	221·4	114	98·6	109·8	268·9	244·9	246·9	286·9	63	37	10·3	10·6	9·4 (7·6)
1964-65	237·8	141	115·0	115·1	298·5	259·3	281·0	305·3	65	35	8·7	10·3	9·2 (7·6)

1 Pertaining to calendar year; comparison base shifted from 1956 to 1951. 2 Comparison base shifted from 1952-53 to 1951-52. 3 Inclusive of interest and Managing Agents' remuneration. 4 Tax cut at source on dividend income of shareholders is included under 'Dividends' and not in 'Tax Provision' in respect of companies which closed their accounts subsequent to 31st March 1959. As such figure of profits after tax for 1959-60 and thereafter are not strictly comparable with those of earlier years. However, comparable ratios estimated for the year 1959-60 to 1964-65 are given within brackets.

† Index worked out by combining the indices of cereals and pulses.

Note:—Data given under columns 5 to 13 are based on the statistics on finances of large and medium public limited companies published by Reserve Bank of India.

TABLE B—PERCENTAGE VARIATIONS IN :—

Year	Industrial Production	Whole Sale Prices			Value added or net output at current prices	Value added or net output at constant prices	Salaries and Wages	Profits before tax
		Food Grains	Industrial raw materials	Manufactures				
	1	2	3	4	5	6	7	8
1952-53	3·1	— 2·0	—29·3	—16·2	— 8·5	9·2	3·6	—28·5
1953-54	2·6	— 4·1	9·6	— 1·1	7·8	8·9	3·8	12·6
1954-55	6·8	—20·2	— 7·1	1·7	8·1	6·4	4·0	16·9
1955-56	10·6	— 4·0	— 2·8	— 0·9	17·3	18·3	7·3	27·6
1956-57	8·8	27·8	17·1	6·7	10·6	3·7	12·1	9·0
1957-58	4·2	4·3	0·4	1·7	— 0·3	— 1·9	7·1	—11·7
1958-59	3·4	9·4	— 0·7	0·2	7·3	7·1	4·8	13·1
1959-60	8·5	— 4·8	7·0	3·1	14·6	11·2	8·5	28·3
1960-61	11·3	—	17·6	10·9	22·0	10·0	17·9	26·9
1961-62	6·3	— 1·0	— 1·9	2·2	7·6	5·4	7·7	8·1
1962-63	8·9	5·1	— 4·3	1·7	9·1	7·2	8·9	9·6
1963-64	8·0	9·6	2·2	1·8	10·7	8·8	9·2	13·6
1964-65	7·4	23·6	16·6	4·8	11·0	5·9	13·8	6·4

Note:—Please see Table A for footnotes.

APPENDIX I

Table below presents trends in money wages, real wages and productivity per unit of labour for some selected years in seven selected industries. These include old industries such as jute and cotton textiles and some new ones such as chemicals and iron and steel and account for about 35 per cent of output and employment in organised manufacturing sector, excluding mining in 1961. The trends in wages and productivity revealed in respect of these industries indicate the overall trends in that sector. However, any such generalisation implies that the industries which are not included here indicate a trend similar to that in respect of industries analysed here, which may not be the case. The analysis based on these data is thus subject to this limitation.

(Base : 1951=100)

Year	Index of money wages	Index of real wages	Index of productivity per unit of labour†	Index of fixed capital per unit of labour†
1956	114	114	118	121
1959*	122	106	138	172
1960	140	119	140	170
1961	151	126	171	185

* The indices since 1959 are not strictly comparable with those before that year because of the coverage difference. But they do indicate the trend fairly reliably.

† Provisional.

Source : This table is taken from a study, Trends in Wages in relation to Trends in Labour Productivity, Cost of Production and Profits : 1951-1961, prepared by Shivamaggi, H. B. and Rajagopalan, N. in the Economic Department of the Reserve Bank of India (unpublished).

APPENDIX II

Differentials in Salaries in the Private Sector

	1948-49 Rs.	1956-57 Rs.	Change Per cent
Purely salary earners in the non-Government sector :			
I. Total number of assessees with incomes exceeding Rs. 40,000 ..	321	1,970	
(*a*) Average pre-tax income ..	57,477	63,356	+10·0
(*b*) Average post-tax income ..	38,629	37,367	− 3·0
II. Total number of assessees in the highest income bracket : ..	2	6	
(*a*) Average pre-tax income ..	2,38,448	8,99,159	+336·0
(*b*) Average post-tax income ..	77,250	2,86,929	+371·0
III. Total emoluments of an unskilled worker :			
(*a*) Cotton textiles, Bombay ..	999	1,185	
(*b*) Jute textiles, West Bengal ..	702	806	
IV. Disparity ratio :			
II (*b*) : III (*a*) ..	77	242	
II (*b*) : III (*b*) ..	110	356	

Source : Tables VII and IX on pages 82 and 83 of the Report of the Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees, 1957-59.

REPORT ON A FRAMEWORK FOR INCOMES AND PRICES POLICY

SUMMARY AND CONCLUSIONS

This report has attempted to delineate the framework of incomes and prices policy in the context of planned economic development of the Indian economy and to outline the main instruments of its working. The report, however, does not seek to furnish precise answers to the many issues of incomes policy ; for, with the numerous gaps in statistical information especially in the sphere of agricultural income, wage structure, labour productivity, etc., and the complex background for the determination of incomes policy in India, it is possible at this stage only to provide tentative guidelines for consideration in the formulation of an incomes policy. The Group feels that if a framework for the implementation of incomes policy such as worked out in the report is offered as a basis for wider public discussion, it may be possible, in due course, to formulate a more definitive incomes policy and forge the specific instruments for its implementation.

I. *Context for an Incomes Policy*

2. While Plan objectives constitute the general framework for the incomes and prices policy, the specific structural characteristics of the Indian economy form another equally important part of the broad context in which such policies have to be formulated. The objectives of planned development as reiterated in the Draft Outline of the Fourth Five-Year Plan are: (*a*) a high rate of growth in the national product ; (*b*) progressive improvement in the standards of consumption of the mass of the people ; (*c*) enlargement of the opportunities for gainful employment in a measure commensurate with the increase in the labour force ; (*d*) achievement, in course of time, of self-reliance in terms of equilibrium between investment and saving ; (*e*) non-inflationary process of economic growth ; and (*f*) avoidance of conditions making for accentuation of income inequality and concentration of economic power.

3. The specific characteristics of the Indian economy to which the formulation of an incomes policy should be related are the following : first, the major part of employment in the country is in the rural sector and more than half of the national income is generated in commodity-production and service activities in this sector, in which there is a predomi-

nance of self-employment. Second, a significant part of the output in the rural sector is retained by the producers for their own consumption ; similarly, a considerable portion of rural investment is on the basis of direct rather than monetary savings with a very small amount of transferable savings. Third, in contrast to the rural sector, incomes in the urban sector originate from manufacturing industry, trading and other service activities, with relatively well-developed markets for commodities and factors of production. Fourth, the extent of diversification in the industrial sector is limited despite progress in the last fifteen years. The bulk of the manufactured consumption goods is based on agricultural commodities and the development of investment goods industries is modest. A natural corollary of this is that imports generally consist of capital goods and industrial raw materials, while the major part of exports consists of products of agriculture, agricultural-based industries and the mining industry. Fifth, the development of the social overheads like irrigation, power, transport, communication, education and health facilities, though appreciable in the last few years, is still inadequate in relation to the needs. Sixth, since the per capita incomes are low, there is little margin for voluntary savings in sufficient measure for financing development with the result that there is a large reliance on foreign aid to supplement domestic saving. Finally, there is a very uneven distribution pattern of income and wealth and to a smaller extent of consumption in the economy with a concentration of economic power in the hands of the relatively better off classes roughly corresponding to the degree of skewness in income and wealth distribution.

II. *Incomes Policy : Experience of Developed Countries*

4. Though the need for an incomes policy has been under discussion in most of the developed countries such as the Netherlands, Sweden, France, Norway, the United Kingdom and the United States in the last few years, hardly any *operational* incomes policy has been evolved in any country except possibly the Netherlands. In the main, the aim of incomes policies in the developed countries has been to ensure that increase in wages and other incomes do not outstrip the growth in the real national product with a view to securing stability of the general price level. On the other hand, too, it is generally agreed amongst the developed countries that incomes policy can succeed in its objective much better in a stable economic environment brought about by a con-

juncture of sound economic policies and with a consensus reached among the major socio-economic groups. Further no incomes policy can succeed unless it can ensure a growth in real incomes somewhat higher than what can be attained without it.

5. The general context for an incomes policy in India, however, is different from that in the developed countries. In developing countries like India, self-employment of the working force is the rule, in contrast to the predominance of wage-employment in the developed countries. Thus the policy instruments in India for an incomes policy have to be different and more complex than in the developed countries. Incomes policy has, therefore, to be co-ordinated much more effectively with the other economic policies in India.

III. *Planned development and role of Incomes Policy*

6. With the process of planned development, the specific role of incomes policy would be to ensure that the broad pattern of generation of money incomes is consistent with the Plan and that the disparity in income distribution and consumption is reduced in terms of the Plan objectives.

7. In concrete terms, the essential objectives of an incomes and prices policy in the Indian context would be the following : (*a*) to generate from domestic income the savings necessary for ensuring non-inflationary financing of investments ; this includes broadly regulation of growth of disposable incomes so as not to exceed the rate of growth of productivity per labour unit and not to be out of accord with the pace of growth of per capita consumption so that the necessary saving could materialise ; (*b*) to adjust domestic demands in such a manner as to minimise the pressure on balance of payments—the internal economic balance conducive to external payments balance ; and (*c*) to narrow the disparities in real incomes as between sections of the community and as between individuals through more effective arrangements for distribution of the national product on as wide a basis as possible.

8. In pursuing all these objectives concurrently, conflicts will arise because changes in income structure favourable to one may not always be conducive to the achievement of some other objective. However, such conflicts cannot be avoided in any economy seeking to combine rapid development with social justice ; the simultaneous pursuit of multiple

objectives would be easier when national income is growing rapidly than when it is stagnant or growing only gradually.

IV. *Incomes and Prices Policy: Its relation with other aspects of economic policy*

9. Since the structure of incomes and the structure of prices are affected by all the different aspects of economic policy, incomes and prices policy has to be related and integrated with investment policy, fiscal policy, foreign exchange policy and policy for institutional changes, etc. It is, of course, difficult to draw firmly the boundaries between each such set of policies and there would be inevitably areas of common interest.

10. This implies that the instruments which are to be used for increasing domestic production, improving the balance of payments, and enlarging the public sector will, between them, constitute the main content of income formation and set its pattern for the most part. Similarly, the trend and level of prices will be powerfully influenced and largely determined by fiscal and monetary policies. Thus, if the basic fiscal and monetary outlook is inflationary and disruptive of external balance, incomes and prices policy as such will be largely infructuous and inadequate by itself to restore the balance of the economic system. In the contrary case, with adequate fiscal and monetary policies, income and price policy may have only a limited role. However, it is only if it is properly co-ordinated with the other aspects of economic policy that incomes policy could succeed in its limited objectives. Even so its role would be ancillary to the other major policy instruments.

V. *Incomes and Prices Policy: the problem of income categories*

11. In a large developing economy, such as ours, it is obviously impossible to devise measures to deal with each income or price variation. It is therefore necessary to group such incomes and prices in operationally distinguishable categories and identify the instruments that should be used for influencing them with a view to achieving the objectives. In marking out the relevant categories, it is advantageous to think in terms of incomes and prices separately, despite their close inter-relationship over large sectors of the economy. On the basis of the characteristics of the existing economic structure in India, four broad types of classification of income disparities seem to be relevant for framing the

approach to incomes and prices policies. These are : (*i*) sectoral categories—such as rural and urban incomes or agricultural and non-agricultural incomes ; (*ii*) functional categories—that is to say, wages, profits, rent and interest ; (*iii*) size categories—high incomes and low incomes especially in regard to personal incomes ; and (*iv*) institutional categories—such as Government income, corporate income and household income.

12. Though there can be other ways of classifying incomes, the scope of income distribution can be conceived in terms of the above main types of income groupings. It is with reference to these income groupings that the policy has to be evolved. In respect of all these approaches to the question, the crux of incomes policy in the Indian context consists of achieving 'fair' distribution consistent with the economic objective of accelerating the pace of capital formation and structural change conducive to self-reliant growth.

13. Planning aims at bringing about a change in the relative contribution of the different sectors of the economy to the national product. In the main, the Plans envisage a faster development of the manufacturing and service sectors than of the agricultural sector thereby reducing the relative share of agriculture in the total national product. The Plans will also affect the distribution of income between functional categories. With the coming into existence of new productive activities, and the progress in technology, factor combinations in different sectors will alter significantly. And this may change the income distribution in such a way that the proportion of non-wage income to national income may rise. The changes in both these income categories, that is, sectoral and functional, may not fully meet the requirements of equity but then these changes in aggregative terms should be viewed in relation to the economic requirements of growth and diversification. It is only in regard to the subsequent stages of readjustment in the size distribution of *personal* incomes that concepts of 'fairness' have immediate relevance. In general, in visualising an incomes policy for India, it would be appropriate to start with a distinction between incomes in major sectors like agriculture, industry and services ; and then, within each sector, distinguish the functional categories of wages, rent and profits. The set of measures to be adopted can, therefore, be conceived in terms of shifts in these various elements in the major sectors.

VI. *Criteria for incomes growth and distribution*

14. As stated above the question of equity acquires importance essentially in respect of the pattern of personal disposable incomes. However, in this case, the concept of 'fairness' is a rather vague and difficult criterion to apply in practical terms. In the main, it has two aspects. The first of these is in terms of an acceptable range of variation. It is in this context that notions such as 'national minimum income', 'minimum wages', or 'ceilings on incomes' are brought up in discussion of policy. The second aspect relates to comparable rewards for comparable work. It is rarely that both these criteria are satisfied in devising a structure of incomes.

15. As regards the first, specification of a range for personal incomes in terms of a national minimum and a national maximum is not by itself a policy measure capable of direct implementation, particularly in a mixed economy such as India's. The levels so specified have to be reached through various other policies directed towards the creation of employment and incomes and limiting the addition to real income of those in the upper income brackets. Any such shift should be consistent with the requirements of capital formation for economic growth. Even without specifying a rigid or precise range, however, investment and production, as well as fiscal and institutional policies should be so adapted as to take the economy towards a fairer pattern of personal income and personal consumption standards.

16. In regard to the second aspect of fairness in distribution, the general criterion could be that incomes rise should be determined on the basis of productivity increases. Since wages are, by and large, determined by negotiation or awards, it is easier to use productivity as a basis for fixing them. In the case of non-wage incomes, the problem of relating such incomes to productivity can be approached through identification and elimination of non-functional elements in such incomes, so that they would broadly represent real rewards for efficiency, effort and saving. If thus the wage incomes and non-wage incomes are linked to productivity, money incomes would not outstrip productivity resulting in inflation and instability.

17. From the point of view of the objective of steady and non-inflationary growth, the measure of productivity which would seem relevant and appropriate for setting the

general course of incomes is not productivity in any particular unit or a sector but in the private economy as a whole *i.e.*, economy excluding Government services. To eliminate short-term fluctuations in this measure, a five years' moving average of the rate of change in productivity should be used. However, the criterion of linking of increase in money incomes to the productivity in the private economy has to be qualified in view of the requirement of progressively raising the saving-income ratio in the economy.

18. Related to the regulation of the reward for labour or for services of special groups of the working population is the question of 'fair' rewards or return for capital. In this respect the guiding principles should be to offer a return which would be adequate to attract enough resources in a competitive market for capital and other factors of production so as to enable the industry concerned to expand at the desired rate.

Agricultural Wages and Incomes

19. A far larger question than of industrial wages is that of labour incomes in agriculture. The problems here are also vastly more complex and difficult, since employment is in considerable part casual, seasonal or non-regular and wages are governed to a substantial extent by non-economic elements such as tradition, caste, etc. Besides, wages are not always paid in money though the degree of monetisation or payment in cash varies according to the crop and has been on the increase. There are considerable disparities in wages between regions, between different crops as well as between the wages paid to men, women and children. Owing to these very conditions, agricultural labourers as such are not able to employ methods of collective bargaining.

20. Although Government has attempted to fix minimum wages through legislation, its implementation has been beset with a number of difficulties which arise mainly from the very ills of poverty and illiteracy as well as from such structural factors as the small and scattered nature of agricultural farms, the casual character of employment and the dispersal of farms. All these difficulties only serve to emphasise that the predominant components of any policy for agricultural wages will have to be, at this juncture, a sustained improvement in the productivity of agriculture and the assurance of stable and reasonably remunerative prices

for agricultural products. These, together with such transfer of labour from agriculture to industry as could be organised in consequence of growth of the industrial sector, should, between them, provide the main means for improvement in the wages and conditions of work of agricultural labour.

21. The question of self-employed persons in agriculture is somewhat different from that of agricultural labour. Although in terms of income received these persons are not significantly better off than agricultural labourers, they are in a position to benefit directly from any increases in productivity that may occur as a result of investment programmes of the Government, provided the prices of agricultural products are maintained at a remunerative level. Therefore, the problem in their case is mainly one of an appropriate prices policy.

Salaried Classes

22. In regard to salaried classes, there is hardly any difference at the lower end between their economic status and that of the wage earners, though unlike in the case of wage-earners, it is difficult to rate salaried employees in terms of productivity, owing to the administrative nature of their duties. On the whole, at the lower end the policy in regard to incomes of the salaried class may bear close parallel to wages at the corresponding levels of industrial labour ; the basic consideration here is similarity of needs and standards of skill and educational attainment of the workers rather than comparability of their contribution to productivity. At the higher end, salary earners render services comparable with those of entrepreneurs or independent professionals with specialised skills. At these levels, therefore, the broad considerations of restraining increases in incomes through fiscal or other means do apply.

23. The norms for incomes adopted in the public and private sectors for persons with equivalent skills have come to diverge. Whereas in the public sector a policy of reducing income disparities between the lowest and the highest paid employees has been followed, in the private sector the determination of remuneration, particularly in the highest income brackets, does not either reflect any such policy or always derive from an application of strict economic criteria, being influenced by social and other considerations as well. However, for rationalisation of the structure and system of private

sector salaries, reliance should be placed more on appropriate fiscal policies and development of modern management practices than on imposition of formal regulations for direct fixation of emoluments.

24. The problem of salaries, including salaries within the public sector undertakings, requires a careful and considerate approach which takes fully into account the need, on the one hand, for avoiding inflationary spirals and, on the other, imparting to the wage and salary structures in the private and public sector undertakings, especially for scientific, engineering and technical personnel, a resilient quality conducive to improving efficiency and maximisation of effort and output.

VII. *Guidelines for Incomes Policy*

25. Guidelines for wages and incomes policy may now be summarised :

(*i*) Administratively, the scope for regulation of wages is limited to areas of organised industry and economic activity where modern processes of production are used. The problem of wage regulation in agriculture is basically different from the one in industry.

(*ii*) As a general rule, we should aim at regulating movements in money incomes so as to keep incomes in step with trends in national productivity moderated to some extent by the need to maintain a growth of consumption slower than productivity.

(*iii*) In measuring productivity it is necessary to take into account both the long-term and short-period trends. A five years' moving average of the rate of change of productivity in the economy would be a good general guide for regulating changes in money wages.

(*iv*) The trends in productivity are to be considered as outer limits for wage and income adjustments, so as to prevent increases in wages and incomes from generating inflationary pressures. In actual implementation, however the productivity criterion should be so operated that the entire gains in productivity are not absorbed by immediate increases in consumption. A suitable modification of the pro-

ductivity criterion would be to allow an increase in wage rates at some combination of the trend rate of growth of productivity and consumption in the economy, both based on five years' moving averages, so as to provide the necessary margin for growth of savings and capital formation in the economy.

(*v*) Productivity would be rising at varying rates in different sectors. Employees in those sectors where productivity rises faster than the national average may have a claim to get increases in wages somewhat higher than the national average increase in productivity, especially where this is warranted by the contribution of labour to productivity. Correspondingly, wages in the other sectors where productivity rises less than the national average would have to rise at rates somewhat lower than the national average. The best general rule, however, is to regulate increase in wages and money incomes in different sectors and industries at a rate which takes account largely of the growth of productivity in the economy as a whole, but to some extent also of productivity in the sector or industry concerned.

(*vi*) Productivity-linked wage schemes should in general be such as will enable a part of the benefit of rise in productivity to accrue to the community in the form of lower prices of the products concerned.

(*vii*) In operational terms, in determining the income levels of various functional groups a variety of other factors such as the basic minimum or need of social amelioration, cost of living increases and incentive wages for the promotion of economic efficiency have to be given due weightage along with the trend in productivity.

(*viii*) Positive production and price policies are necessary to make an incomes policy effective, because rising prices of essential consumption goods depress real incomes directly and have the indirect effect of accentuating the degree of income inequality. This implies that there should be a close relationship established between incomes policy and production and investment and price policies.

VIII. *The problem of relative prices and price-determined incomes*

26. In relation to the question of incomes policy a view has to be taken in respect of the appropriate price structure. For fashioning the tools of policy, a workable classification has to be attempted. As in the case of the income categories, it will be useful to consider questions of price policy also first in terms of sectoral categories—such as agricultural prices, and prices of manufactured articles—and secondly in terms of consumption goods—such as essential consumption articles, luxury articles and so on.

27. In conceiving of a price policy in terms of sectoral categories, it is essential to bear in mind certain compulsions involved in the process of rapid economic growth. When the rate of capital formation has to be stepped up sharply, restraint on consumption is necessary and the problems of devising appropriate techniques including price incentives for effecting the desired shifts from consumption to investment becomes more urgent and complex. The impact of a rise in money incomes generated by new investment is severely felt on wage goods principally foodgrains. Once begun, the process of price rise does not remain confined to food prices for long. Since food forms a significant proportion of the expenditure of the wage earners, the wage rates in an expanding industrial sector tend to move up thereby transmitting an initial sectoral imbalance to the general economy in the form of inflationary pressures, which is what seems to have happened in India during the last decade. It is in such an economic context that the policy for prices has to be formulated. The discussion of appropriate price policy divides itself into two parts : the policy for prices in the agricultural sector and the policy for prices and profits and other non-wage incomes in the industrial sector. Both of these would have to be an integral part of the overall economic policy directed towards achieving the objective of economic growth.

28. As regards agricultural commodities, the price policy should be so devised as to accord with the needs of a rapid growth of productivity in the agricultural sector. While the prices offered to the producers should be remunerative enough to act as an incentive to them for putting in greater effort and raising investment, care has to be taken to see that the prices charged to the consumers are not unduly high. As regards the price policy for the non-agricultural sector, some difficult problems arise. The profits of the industrial

sector provide the sinews of expansion in a growing economy and the rate of profitability of industry has to be maintained to sustain the growth of the economy. This calls for a price policy which can ensure a reasonable rate of return on investment in industry especially in the form of equity. On the other hand, the price policy for the industrial sector can not ignore the unhealthy impact of the growing volume of profits on economic concentration which has far-reaching political and social implications. Thus, both the objectives of growth and equity have to be kept constantly in mind in the formulation of the policy towards the non-agricultural sector.

29. Incomes which accrue by way of profits, dividends and rent are largely determined by the relative prices of inputs and outputs. Consequently, they will vary in accordance with the policies pursued for regulating price increases, both generally and in specific markets. Policies for prevention of inflationary price increases thus constitute necessary instruments for containing these incomes within reasonable limits. Likewise, price and distribution controls applicable to particular commodities or industries may help in curbing undue increases in this type of incomes. Price controls as such are, however, an instrument of limited efficacy in a large, complex and partly unorganised economy and measures for influencing prices in a desired way require considerable scope for manoeuvre as well as a degree of sophistication.

30. Besides the measures for price regulation, it will in some cases, be possible to set certain constraints on these incomes *i.e.*, profits, interest, rent etc.—in the shape, for example, of limitation of the rate of dividends, or of rents. It will, however, be difficult to implement such regulatory measures effectively unless their area is kept within the manageable limits. The most practicable instrument for dealing with high incomes of this sort will be the effective enforcement of a progressive tax system, supplemented by an adequate system of taxation of capital gains and an expansion of public control over the material means of production.

IX. *Organisation and Machinery for Incomes Policy*

31. An important aspect of incomes policy concerns the machinery for continuous consideration and review of the policy instruments for the operation and effective implementation of incomes and prices policies. The functions

of a machinery for incomes policy would comprise : (*i*) organising technical studies of income formation and distribution, trends in productivity and consumption by broad sectors, price trends, relative prices of agricultural and non-agricultural commodities and other inter-sectoral price variations ; (*ii*) maintaining a watch over developments in various spheres such as wage awards and recommendations and decisions in regard to prices relevant to an incomes policy ; (*iii*) working out the guidelines for incomes policy as well as suggesting instruments for implementation ; and (*iv*) taking suitable measures towards promoting a better understanding by the different sections of the population of the various issues involved in framing and adopting an incomes policy.

32. To enable these functions to be performed efficiently would require a machinery which not only arranges for a systematic collection and analysis of information on the various aspects of the development in the economy concerning incomes policy, but which has the requisite stature so that its advice would be given due weight by the various authorities concerned with taking decisions relevant to incomes policy. Such a machinery may be conceived in terms of a two-tier organisation, one of which could work at the expert level while the other would be a body consisting of representatives of the various interests such as employees, employers and the Government who are concerned with the incomes policy and on whom would fall the responsibility of working for the acceptance of an incomes policy by the general public as well as specifically by bodies of employers and employees. The precise composition of such an organisation is a matter for consideration. At the same time arrangements need to be made immediately for handling the technical part of the work necessary for framing an incomes policy.

33. Some of the studies can be undertaken by the existing agencies such as the National Income Unit of the Central Statistical Organisation, the Department of Economic Affairs, Ministry of Finance, Planning Commission and the Economic and Statistics Departments of the Reserve Bank. However, the important point is that the work done in these organisations should have a definite orientation from the point of view of incomes policy. For this purpose, it appears necessary that at least a separate cell or a group is set up on a continuing basis from amongst the experts from these organisations with the specific responsibility of arranging for the various studies in their respective organisations and co-ordinating the results.